THE MANUFACTURING AND TRADE SECTORS IN QUÉBEC IN 1988

OUTLOOK FOR 1989

QUÉBEC, JANUARY 1989

Québec

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92-02639/

Gouvernement du Québec
Ministère de l'Industrie, du Commerce et de la Technologie

Prepared by: Direction de l'analyse économique
et des relations internationales

Published by: Direction des communications

Produced by desktop publishing on a Macintosh II.

Legal Deposit, 1st quarter, 1989
Bibliothèque nationale du Québec
ISBN 2-550-19489-6

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ACKNOWLEDGEMENTS

The analysis of the manufacturing sector by industry group benefited from the expertise and assistance of a number of specialists from various economy-oriented departments of the Québec government. We wish to thank the following for their invaluable cooperation:

- Ministère de l'Industrie, du Commerce et de la Technologie
  - Direction générale des industries chimiques et métallurgiques
  - Direction générale des biens d'équipement
  - Direction générale des biens de consommation
- Ministère de l'Énergie et des Ressources
  - Direction du développement industriel
  - Direction du pétrole
- Ministère de l'Agriculture, des Pêcheries et de l'Alimentation
  - Direction de la statistique et de la conjoncture

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THE MANUFACTURING AND TRADE SECTORS IN QUÉBEC IN 1988

HIGHLIGHTS

THE QUÉBEC ECONOMY

• In 1988, Québec experienced its sixth consecutive year of economic growth. Real GDP rose 4.8%, outpacing growth in Canada and other major industrialized countries. Strong external demand boosted Québec's international exports.

• The number of jobs increased on average by 84 400 in one year, with full-time jobs accounting for most of the 2.8% gain. In spite of a 1.8% growth in the labour force, the average unemployment rate dropped from 10.4% in 1987 to 9.4% in 1988 (based on data for the first 11 months of each year).

• Total payrolls were up 7.5% while the consumer price index advanced 3.9%. Real personal disposable income increased 0.7% during the first half of the year, compared to a 1.6% gain for the corresponding period in 1987.

• Capital spending soared 13.2% above 1987's already exceptionally high level. Québec's share of total capital spending in Canada remained at 22.3%, a ten-year record high set in 1987 and maintained in 1988. All sectors of the Québec economy boosted their capital spending, with utilities and manufacturing showing the largest increases.

• Capital expenditures for residential construction were up slightly, although a decrease was expected. Housing starts declined, which can be accounted for by three factors: the record number of housing starts in 1987, demographic trends and higher mortgage interest rates. Most of the strength in construction came from

ECONOMIC INDICATORS
QUEBEC, ONTARIO, CANADA
1987-1988

	GDP		EMPLOYMENT		UNEMPLOYED		CAPITAL EXPENDITURES		HOUSING STARTS (centres 10 000+)	
	1987	1988	1987	1988 (11 months)	1987	1988 (11 months)	1987	1988	1987	1988 (11 months)
	(millions of $)		(thousands)		(thousands)		(millions of $)		(number)	
QUEBEC	113 569	122 761	2 965.5	3 049.9	340.8	318.1	24 178.5	27 362.0	66 757	46 490
ONTARIO	193 217	212 408	4 706.2	4 887.2	306.8	261.1	44 045.7	49 469.1	93 900	80 669
CANADA	491 652	533 365	11 954.3	12 351.1	1 166.9	1 052.5	108 528.9	122 952.3	215 340	175 825

SOURCES: The Conference Board of Canada; Statistics Canada; CMHC; Direction de l'analyse économique et des relations internationales, MICT.

ECONOMIC PERFORMANCE COMPARISON
QUEBEC, ONTARIO, CANADA
1987-1988
(percentage change)

	REAL GDP		EMPLOYMENT		UNEMPLOYMENT RATE		CAPITAL EXPENDITURES		CPI (1)	
	1987	1988	1987	1988 (11 months)	1987	1988 (11 months)	1987	1988	1987	1988 (11 months)
QUEBEC	5.1	4.8	3.5	2.8	10.3	9.4	15.0	13.2	4.5	3.9
ONTARIO	4.7	5.0	3.3	4.0	6.1	5.1	14.7	12.3	5.6	5.0
CANADA	4.0	4.2	2.7	3.4	8.9	7.9	11.8	13.3	4.4	4.0

(1) Consumer price index, Montréal, Toronto, Canada.

SOURCES: The Conference Board of Canada; Statistics Canada; Direction de l'analyse économique et des relations internationales, MICT.

non-residential and engineering construction, led by the trade and highway construction sectors. The increase in the value of contract awards was common to nearly all regions.

THE QUÉBEC MANUFACTURING SECTOR

• The steady rise in production in Québec's manufacturing sector was sustained in particular by the durable goods industries. Industrial prices accelerated in a context of high capacity utilization rates.

• Manufacturers' shipments showed an 8.3% increase for the first nine months of 1988, compared to a rise of 9.1% for the year 1987. A 7.3% growth in shipments is expected for 1988 as a whole, with the total value reaching $73 billion. Durable goods industries posted a 14.4% gain in shipments for the first three quarters of the year while non-durable goods industries registered a 4.4% increase. Additional output by new aluminum production facilities which came on stream during the year and a return to normal production activity in the automobile industry were major contributing factors in the strong showing by durable goods industries.

• Canadian exports loaded in Québec posted a first-half gain of 14.3% in 1988, compared to an increase of 1.6% for the year 1987. Part of this result is attributable to the resumption of normal production activity in the automobile sector, bringing passenger car exports back up to previous high levels. The share of Québec's total international exports held by the United States slipped to 75.9% from 77.3% in 1987. The strength of the yen and European currencies gave Québec products a price edge in Japanese and EEC markets.

• Over the first 11 months of 1988, Québec's manufacturing sector added an extraordinary 47 700 new jobs to the economy. With an 8.3% increase over the year-earlier level, manufacturing's employment performance was clearly the best in Québec. During the same period, employment stagnated in Ontario manufacturing industries. Average hourly wages of employees in Québec manufacturing industries reached $11.86 in June 1988, or 89.2% of the wages of their Ontario counterparts.

MAIN ECONOMIC INDICATORS
QUEBEC
1987-1988
(percentage change)

INDUSTRY	REAL GDP 1987	REAL GDP 1988	EMPLOYMENT 1987	EMPLOYMENT 1988 (11 months)	CAPITAL EXPENDITURES 1987	CAPITAL EXPENDITURES 1988	WAGES 1987	WAGES 1988 (9 months)
Agriculture	5.0	1.2	-7.2	-8.4	-11.3	1.7	5.9	3.7
Other primary industries	9.4	3.0	-7.7	-1.4	20.2	17.9	5.1	4.9
Manufacturing	7.9	4.8	1.5	8.3	5.4	27.1	8.5	8.3
Construction	6.8	4.3	13.3	11.6	25.2	1.5	13.4	12.7
Transportation, communication and other utilities	5.5	5.7	6.1	0.1	17.1	27.7	4.9	5.4
Trade	8.8	5.9	1.3	-0.3	8.8	7.7	9.5	8.3
Finance, insurance and real estate	5.7	6.5	8.8	1.0	35.2	18.4	9.7	12.5
Service	0.2	4.0	4.0	3.2	12.9	11.1	9.2	6.5
Public administration	-0.2	1.2	5.5	-3.0	-1.0	17.4	6.6	2.3
All INDUSTRIES	5.1	4.8	3.5	2.8	15.0	13.2	8.8	7.5

SOURCES: The Conference Board of Canada, "Provincial Outlook", November 1988; Statistics Canada, "The Labour Force" (Cat. 71-001), "Private and Public Investment in Canada" (Cat.61-205), "Estimates of Labour Income" (Cat.72-005); Direction de l'analyse économique et des relations internationales, MICT.

• At the end of the second quarter of 1988, the capacity utilization rate in Canadian manufacturing industries reached 81.5%. Six industries were operating at virtually full capacity, in excess of 95%: plastics products, primary textiles, textile products, clothing, printing and publishing, and electrical products. The upsurge in primary metal industries continued despite added production capacity.

• In 1988, Québec manufacturers boosted their total capital expenditures by 27.1%, with outlays for construction up 33.6% and expenditures for machinery and equipment rising 25.7%. The highest capital spending increases were reported by the following industry groups: wood (128.1%), machinery (88.8%), transportation equipment (79.9%), primary metals (67%) and non-metallic mineral products (62.8%); their expenditures reached strikingly high levels.

• R&D expenditures in 1988 by Québec manufacturers are estimated at $772 million, which would mean a 6.5% increase, as against a 12.2% rise in 1987. The eight leading industries in Québec in terms of R&D raised their overall R&D expenditures in Canada for 1988 from $462 million to $503 million, an 8.9% increase compared to a 17.3% gain in 1987.

• Changes in unit labour costs in 1988 indicate that Québec manufacturers maintained their competitive position relative to their other Canadian competitors. Owing to movements in exchange rates, the competitive position of Québec manufacturers weakened in relation to their U.S. counterparts but improved vis-à-vis their Japanese and British competitors.

• Québec and Canadian manufacturers posted a 21.6% increase in basic earnings for the first half of 1988, the pulp and paper and primary metal industries reporting gains of 28% and 55% respectively.

• Over the first ten months of 1988, the number of business bankruptcies in the Québec manufacturing sector rose 22%, and liabilities involved in bankruptcies, 106%. Metal fabricating, chemical products and miscellaneous manufacturing were the three industry groups most affected.

THE TRADE SECTOR IN QUÉBEC

• Wholesale sales climbed 12.6%, outstripping the 10.4% gain registered in 1987.

• Retail sales in the first nine months of 1988 were up 8.1%, the weakest growth recorded in the past five years. The increase for 1988 as a whole is expected to be 6.8%.

• Sales of semi-durable goods maintained a growth rate comparable to that of 1987; sales of durables reflected the slowdown seen in automobile sales; sales of non-durables, usually stable, unexpectedly slowed sharply.

• Employment in the trade sector declined marginally, by 0.3%, the stagnation being felt in both the retail and the wholesale trade sectors. Full-time jobs were down 1.7% while part-time jobs rose 5.4%. Female employment advanced 1.1% whereas male employment decreased 1.3%.

THE MANUFACTURING AND TRADE SECTORS IN QUÉBEC IN 1988

THE GLOBAL ECONOMIC CONTEXT

THE INTERNATIONAL ECONOMIC SITUATION

In 1988, the 3.0% growth in the real GDP of the OECD countries was stronger than experts had predicted. Employment rose 1.5% and, as in 1987, showed a substantial increase in North America. The overall unemployment rate dropped to 7.5%. The inflation rate, as indicated by private consumption deflators, edged up to 3.5% in 1988 from 3.4% in 1987.

The world economy should continue to expand in 1989, mainly because of the investment boom experienced in virtually every major region of the industrialized world. Economic growth will lose only a bit of momentum.

In several EEC countries, growth in production, investment and employment is expected to remain slow because of those countries' restrictive economic policies. The 2.7% overall growth in the real GDP of EEC countries in 1987 dropped off to 2.5% in 1988. The OECD economic forecasters put that growth at approximately 2% in 1989. Efforts to remove barriers to trade in goods and services within the EEC by 1992 could stimulate investment and moderate pressures on prices because businesses will have to face stiffer competition. In addition, ongoing tax reform will reduce market distortions and enhance tax incentives to businesses and consumers.

In the Far East, Japan maintained a real GDP growth of 4.25% in 1988. Again according to the OECD, that pace is expected to slow in 1989, to about 3.75%. Private consumption and non-residential investment expenditures should remain the engines of growth, thanks to Japan's relatively expansionist economic policies. Several factors point to a sustained increase in imports: the appreciation of the yen, the growing integration of Japan with the newly industrialized countries of Asia, and insufficient domestic supply of certain products. Although their trade balance still shows a huge surplus, Japanese manufacturers are beginning to worry about the rise in imports and the problems caused by this new competition.

THE ECONOMIC SITUATION IN THE UNITED STATES

After more than five years of growth, the U.S. economy showed few forerunners of a recession. The Federal Reserve System has even expressed some concern at the end of the sixth consecutive year of expansion that the economy is growing too rapidly and that inflation is becoming a serious threat.

INTERNATIONAL ECONOMIC SITUATION

Country	Real GDP		Employment		Inflation (1)		Unemployment rate	
	1987	1988	1987	1988	1987	1988	1987	1988
	(% change)		(% change)		(%)		(%)	
Canada	4,0	4,2	2,7	3,4	4,3	3,75	8,9	7,9
United States	2,9	2,75	2,6	2,0	4,0	3,75	6,2	5,5
Japan	4,2	4,25	1,0	1,5	-0,1	1,25	2,8	2,5
West Germany	1,7	2,25	0,7	0,5	0,5	1,0	7,9	8,0
France	1,9	2,0	-0,1	-0,25	3,0	2,5	10,6	10,75
United Kingdom	4,5	3,5	1,8	1,0	3,3	3,25	10,4	9,5
Italy	3,1	2,5	0,2	0,25	4,8	4,5	11,0	11,5
OECD - Total	3,1	3,0	1,6	1,5	3,4	3,5	7,9	7,5

(1) Private consumption deflators.

SOURCES: OECD, "Perspectives économiques de l'OCDE", June 1988; MICT.

The index of leading indicators rose during 1988 and nothing in the latter monthly movements of the index points to a recession in the short term. Factors which pushed up the index in 1988 include the following: an increase in building permits, securities prices, new orders placed with manufacturers for consumer goods, and a decline in unemployment insurance claims. On the other hand, certain factors are indicative of a slowdown in demand: faster delivery times, lower industrial materials prices, a fall-off in the real money supply, a shorter average workweek, and a plunge in equipment orders.

GDP, which grew by 3.4% in 1987, increased 3.2% during the first half of 1988 and, despite the drought's adverse effects on crops and livestock, rose a further 2.6% in the third quarter.

Six years of economic growth produced the tightest labour market conditions in decades. Employment was up 2.0% and the unemployment rate tumbled to 5.5%. Employers found it extremely difficult to fill their manpower requirements and, in order to do so, had to accept rising labour costs. Skilled labour shortages, especially in machinery and tool and die industries, forced manufacturers to improve their productivity. In 1989, these shortages will put pressure on businesses to increase wages and employee benefits in order to keep or attract competent workers.

A marked improvement in the international competitive position of U.S. manufacturing industries, the replacement of aging equipment and the scarcity of several basic raw materials all contributed to boost capital spending by crude and fabricated materials producers. Expenditures for new plant and equipment skyrocketed by 10.7% in 1988, after a modest 2.4% gain in 1987.

The export boom, linked to the dollar's decline, and vigorous consumer demand, difficult to satisfy even with restrictive financial market conditions, combined to spur an increase in manufacturing capacity utilization. Industries operating at near-full capacity—the textile, paper and chemical products industries in particular—are likely to increase their capital spending very quickly.

The upsurge in the production of export commodities and capital goods was also accompanied by an intentional increase in inventory levels. This form of investment has a positive impact in the current economic context.

The economic situation is not favourable for all types of investment, however. The United States may soon have to produce more and consume less in order to bring down the trade deficit. That would mean a slowdown in non-industrial investments, such as in housing, stores and office buildings. And during an economic slowdown, businesses with comparatively new equipment, such as computers, will be more likely to postpone purchases of this type.

In 1989, the U.S. economy will probably have to face rising inflation and more costly imports as a result of the dollar's depreciation. Higher short-term interest rates, a deterioration in the bond market and upward pressures on labour costs are also part of the picture for 1989. According to Conference Board forecasts, economic growth in the U.S. will even become negative towards the end of the year. That would not be a catastrophe, however, since GDP growth for the year as a whole would still be half that posted for 1988. Finally, business operating profits, following an upsurge in 1988, should remain virtually unchanged in 1989.

THE ECONOMIC SITUATION IN CANADA

Canada's GDP rose 4.1% from September 1987 to September 1988. According to estimates for the year 1988, GDP should be up 4.2% to $533.4 billion, compared to 4.0% growth during 1987 when the total value reached $491.6 billion at year-end. Considering the steady rise in interest rates, which normally dampens demand, Canada posted unusually strong growth in consumer spending, residential construction and business investment in 1988. As a consequence of this sustained demand, employment in Canada rose 3.4% in 1988, which is more than twice the overall increase registered for the OECD countries.

Retail sales, spurred by sales of durable goods, advanced 8% during the first three quarters of 1988. The Canadian consumer price index rose 4.0% over the first 11 months of 1988, as against an increase of 4.4% in 1987.

Residential construction activity posted a third-quarter gain of 3.2% after registering declines in the three preceding quarters. In Ontario, the impetus behind the increase came from detached houses while, in the Western provinces, all types of housing contributed to the upturn.

Business investment in new plant and equipment shot up by 13.3% in 1988, compared to a year-earlier gain of 11.8%. One fact illustrates very clearly the extent of the investment boom: the 1.3% third-quarter rise in expenditures for machinery and equipment was the seventeenth consecutive substantial quarterly increase. On the other hand, Canadian affiliates of U.S. manufacturing companies plan to reduce their capital expenditures in Canada by 5.4% in 1989, after boosting them by 16.7% in 1988. That cutback reflects the completion of expansion projects in several industries, transportation equipment industries in particular. By comparison, the capital spending intentions of all foreign manufacturing affiliates of U.S. companies add up to an overall increase of 2% for 1989, following a 23% jump in 1988.

In September 1988, Canadian manufacturers posted a 0.9% rise in new orders. It was the second consecutive monthly increase and an improvement over the trend seen earlier in the year. Canadian manufacturers shipments exhibited robust growth—particularly in the transportation equipment, food and chemical products industries—the total value hitting $215.5 billion at the end of the third quarter.

Profits followed a saw-toothed course through the year. Canadian industrial corporations rang up a total of only $9.3 billion for their seasonally adjusted operating profits in the third quarter of 1988, a drop of 4.3% from the previous quarter's total. This decrease came after a second-quarter increase of 7.1% which, in turn, was preceded by a first-quarter decline of 4.5% and by average quarterly gains of 10.7% in 1987. In the third quarter of 1988, corporation profits before taxes totalled $13.7 billion while after-tax profits (excluding extraordinary items) rose to $8.9 billion.

In 1988, the Canadian dollar was pushed up by a steady inflow of foreign capital, spurred by the anticipated continuation of the Bank of Canada's high interest rate policy. The improvement in the exchange rate for the Canadian dollar against the U.S. currency can be explained by a narrowing of the inflation gap with the United States, a reduction in capital outflows and stronger economic growth. An upsurge in raw materials prices and an improved trade balance helped strengthen the Canadian currency in 1988. At year-end, the rate of exchange of the Canadian dollar, on a purchasing power parity basis, was high. Aware of the short-term economic damage that a strong Canadian dollar can cause, the Bank of Canada might encourage a narrowing of the gap between Canadian and U.S. interest rates during the first half of 1989.

CAPITAL SPENDING IN CANADA
BY CANADIAN AFFILIATES OF U.S. COMPANIES
MANUFACTURING
1987-1989

	1987	1988 P	1989 P	1988/1987	1989/1988
	(millions of US dollars)			(percentage change)	
TOTAL	3 000	3 500	3 310	16.7	-5.4
Food and beverages	178	251	239	41.0	-4.8
Chemicals and chemical products	513	561	553	9.4	-1.4
Primary and fabricated metals	196	223	182	13.8	-18.4
Machinery	241	334	372	38.6	11.4
Electrical and electronic products	161	171	138	6.2	-19.3
Transportation equipment	1 071	1 117	947	4.3	-15.2
Other manufacturing	639	843	880	31.9	4.4

P: Planned.

SOURCES: U.S. Department of Commerce, "Survey of Current Business, June 1988";
Direction de l'analyse économique et des relations internationales, MICT.

Despite the effects of the stronger Canadian dollar, which began to be felt in the third quarter, the overall picture for Canada's external trade sector improved in 1988. There was a notable improvement in the current account balance, with the deficit after three quarters shrinking to $6.4 billion in 1988 from its year-earlier level of $7.3 billion. The size of the estimated year-end deficit may, however, be cause for concern in view of the magnitude of the public debt which Canada has piled up. The main factor accounting for the reduction of the current account deficit was a marked improvement in the balance for invisibles which outweighed the deterioration in merchandise trade.

After the first three quarters of 1988, the merchandise trade balance showed a surplus of only $6.7 billion, down $1.3 billion from a year earlier as imports grew faster than exports. Trade in inedible end products was largely responsible for this situation. Caution should be exercised, however, in comparing trade statistics for 1987 and 1988 because a new international commodity designation and codification system was introduced in January 1988 as well as a technical change in data collection.

I

THE MANUFACTURING AND TRADE SECTORS IN QUÉBEC IN 1988

THE MANUFACTURING SECTOR: OVERALL ANALYSIS

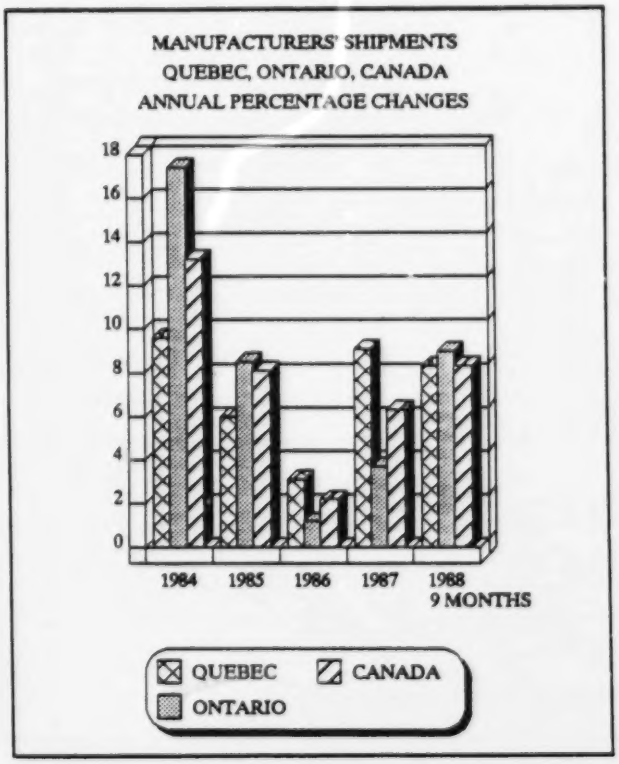
In 1988, the Québec manufacturing sector again turned in an outstanding performance, the durable goods industries in particular. All of the usual economic indicators show the manufacturing sector in excellent health: an unprecedented increase in employment, a first-rate showing by investment and a vigorous recovery *in exports. Industrial prices accelerated—a natural* development in light of the high capacity utilization rates. Changes in inventory levels largely reflect the satisfactory situation of industrial output in Québec.

For the first time in the current upturn, however, monthly movements in the stock-to-shipments ratio indicate that output growth may eventually slacken.

INDUSTRIAL PRICES

Canadian industrial prices accelerated over the first nine months of 1988, rising 3.7%, continuing a movement which saw this index advance 0.8% in 1986 and 2.7% in 1987.

Industry groups which supplied most of the impetus for the overall price increase were primary metals (particularly aluminum products), paper and allied industries (because of wood pulp prices) and chemical products. On the other hand, prices in the wood, transportation equipment and petroleum products sectors curbed the rise in industrial selling prices.

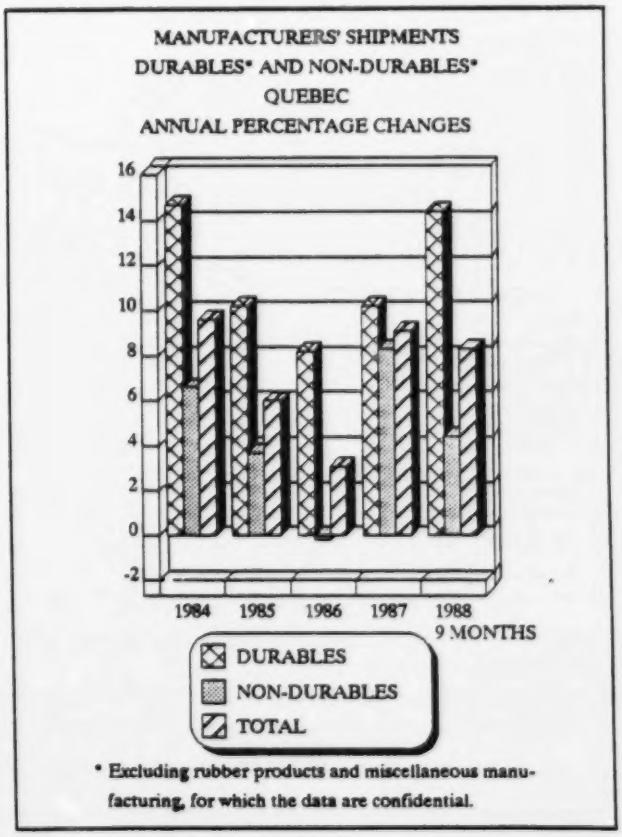


PRODUCTION

(a) Shipments

In 1988, Québec again registered an impressive increase in the value of its manufacturers' shipments for the first nine months of the year compared to the same period in 1987, i.e. 8.3% (or 3.8% in constant dollar terms). And this growth occurred despite a comparable performance in 1987, when shipments were up 9.1%. Industrial output is thus showing astonishing strength during an expansion phase of equally remarkable length.

Growth in Québec's manufacturing output kept pace with that of Ontario (9.0%), which in 1988 made up for the rather lacklustre showing in 1987 that was due to the situation in the auto industry.



* Excluding rubber products and miscellaneous manufacturing, for which the data are confidential.

In 1988, durable goods production again spearheaded the growth in Québec shipments, with an increase of 14.4% compared to a 4.4% gain for non-durables. Much of the credit for the success of durable goods producers goes to primary metal and transportation equipment industries. In the case of primary metals, a favourable market absorbed the additional output from new production facilities, notably in the aluminum sector. As for transportation equipment, the increase is attributable to the recovery in automobile production following the temporary shutdown of the Boisbriand plant in 1987 for retooling.

A slowdown in output growth over the latter months of the year can be expected, owing to a temporary levelling-off in overall economic growth. Projections for 1988 as a whole show shipments up 7.3%, to a total of more than $73 billion. For 1989, informed observers foresee a considerable loss of momentum, with the rate of growth waning to approximately 4%.

(b) Inventories

In the Canadian manufacturing sector, the average level of inventories of finished products rose 3.3% over the first nine months of 1988 compared to the third-quarter level in 1987. This reversed an earlier trend in 1986 and 1987 when inventories declined by 3.6% and 1.2% respectively.

The higher level registered in 1988 does not appear to have been an indication of softer demand. To a large extent, it reflects normal inventory build-up, as witnessed by the inventory-to-shipments ratio which in 1988 continued its downward trend.

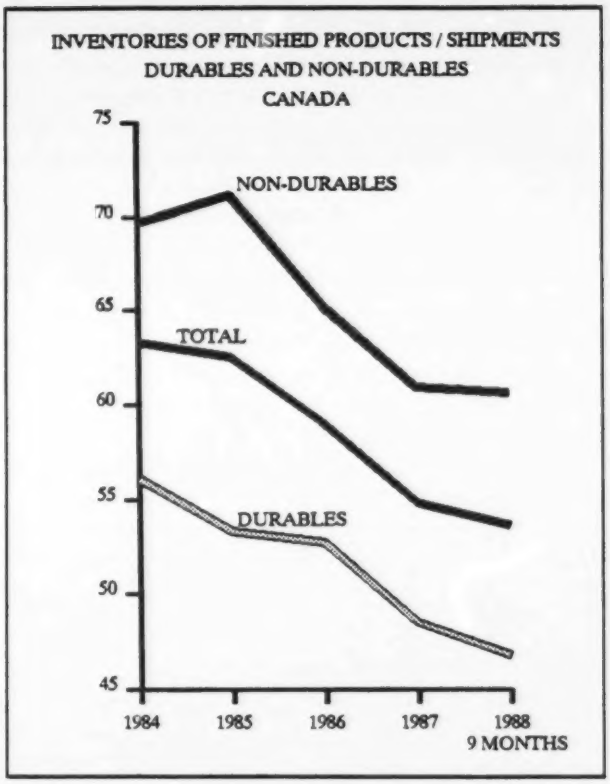
As the year progressed, however, monthly movements in this ratio point to a possible reversal of this trend, which would be an advance signal of a fall-off in production growth. Such a scenario seems quite plausible in the case of non-durable manufacturing where

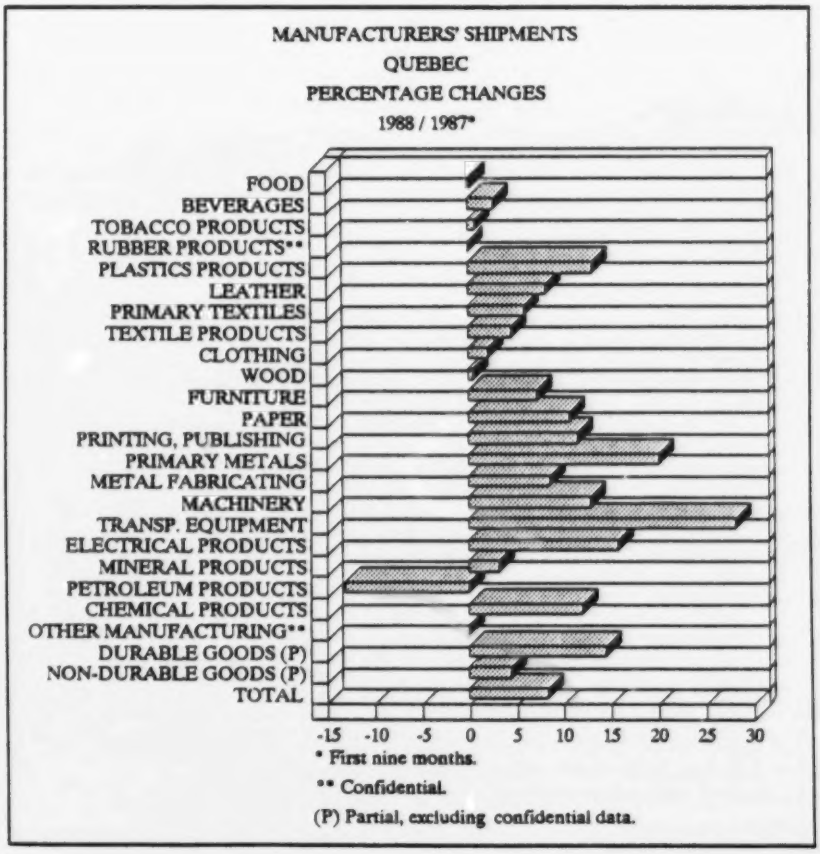
MANUFACTURERS' SHIPMENTS
QUEBEC
1985-1988

INDUSTRY	1985	1986	1987	1988 (9 months)	1988 E	1986/1985	1987/1986	1988/1987 (9 months)	1988E/1987
	(millions of dollars)					(percentage change)			
Food	8 559.6	8 755.7	8 952.3	6 701.5	8 960	2.3	2.2	0.2	0.1
Beverages	1 195.8	1 337.8	1 507.4	1 136.2	1 545	11.9	12.7	2.6	2.5
Tobacco products	811.2	817.1	1 005.2	736.9	1 010	0.7	23.0	0.7	0.5
Rubber products	-	-	-	-	-	-	-	-	-
Plastics products	975.2	1 044.9	1 192.6	1 007.5	1 330	7.1	14.1	13.0	11.5
Leather	452.9	469.0	477.3	383.2	510	3.6	1.8	8.2	6.9
Primary textiles	1 418.6	1 416.1	1 616.1	1 271.3	1 695	-0.2	14.1	5.8	4.9
Textile products	1 244.8	1 385.3	1 525.2	1 187.0	1 590	11.3	10.1	4.5	4.2
Clothing	3 403.6	3 647.1	3 839.3	2 972.1	3 915	7.2	5.3	2.0	2.0
Wood	2 565.7	2 884.5	3 334.5	2 527.4	3 305	12.4	15.6	0.5	-0.9
Furniture	1 014.0	1 033.6	1 205.2	944.9	1 275	1.9	16.6	7.2	5.8
Paper	6 054.2	6 790.4	7 685.8	6 250.5	8 495	12.2	13.2	10.6	10.5
Printing and publishing	2 536.6	2 720.6	2 940.5	2 392.8	3 330	7.3	8.1	11.5	13.2
Primary metals	4 584.7	4 886.6	6 071.3	5 255.0	7 165	6.6	24.2	20.0	18.0
Metal fabricating	3 747.2	3 740.7	4 478.2	3 407.2	4 710	-0.2	19.7	8.5	5.2
Machinery	1 078.6	1 180.8	1 293.1	1 064.1	1 445	9.5	9.5	12.8	11.8
Transportation equipment	5 218.4	5 827.1	5 042.4	4 331.2	6 050	11.7	-13.5	28.1	20.0
Electrical products	3 311.7	3 778.0	4 221.0	3 555.1	4 855	14.1	11.7	15.7	15.0
Non-metallic mineral products	1 370.1	1 424.7	1 639.0	1 263.6	1 685	4.0	15.0	3.2	2.8
Petroleum products	5 581.7	3 345.5	3 653.0	2 334.2	3 210	-40.1	9.2	-13.1	-12.1
Chemical products	3 737.8	4 170.2	4 495.0	3 720.3	4 945	11.6	7.8	11.9	10.0
Misc. manufacturing	-	-	-	-	-	-	-	-	-
Durable goods (p)	22 890.4	24 756.1	27 286.6	22 348.5	30 490	8.2	10.2	14.4	11.7
Non-durable goods (p)	35 971.9	35 899.8	38 889.7	30 083.7	40 535	-0.2	8.3	4.4	4.2
TOTAL	60 540.7	62 421.9	68 110.5	53 926.0	73 085	3.1	9.1	8.3	7.3

-: confidential. (p): partial, excluding confidential data. E: Estimates.

SOURCES: Statistics Canada, Cat. 31-001; Direction de l'analyse économique et des relations internationales, MICT.





the decline in the stock-to-shipments ratio was negligible in 1988. This is consistent with the much smaller increase in new orders for non-durables; furthermore, the growth in new orders slowed with each passing month throughout 1988.

(c) Exports

For the first half of 1988, international exports loaded in Québec registered a very substantial increase of 14.3% over year-earlier results, reaching a total value of $10 786. In interpreting these figures, the possibility of statistical distortions should be taken into account since a new international commodity designation and codification system was introduced in 1988. The fact remains that Québec's exports displayed much more strength in 1988 than in 1987, which marked a near-halt in export growth, with a mere 1.6% annual gain over the 1986 level.

The performance of Québec exports during the first six months of 1988 tracked the movement observed for total Canadian exports over the same period. Some of the vitality shown by Québec's exports can be directly traced to passenger car exports which rebounded to previous levels, skyrocketing by 214% compared to the level reported in 1987, a year when Québec's automobile shipments to foreign markets nosedived because of auto plant shut-downs for retooling. If automobile exports were excluded owing to the unusual circumstances, the increase in Québec's exports in 1988 would be roughly comparable to the solid growth of over 7% registered in 1985 and 1986.

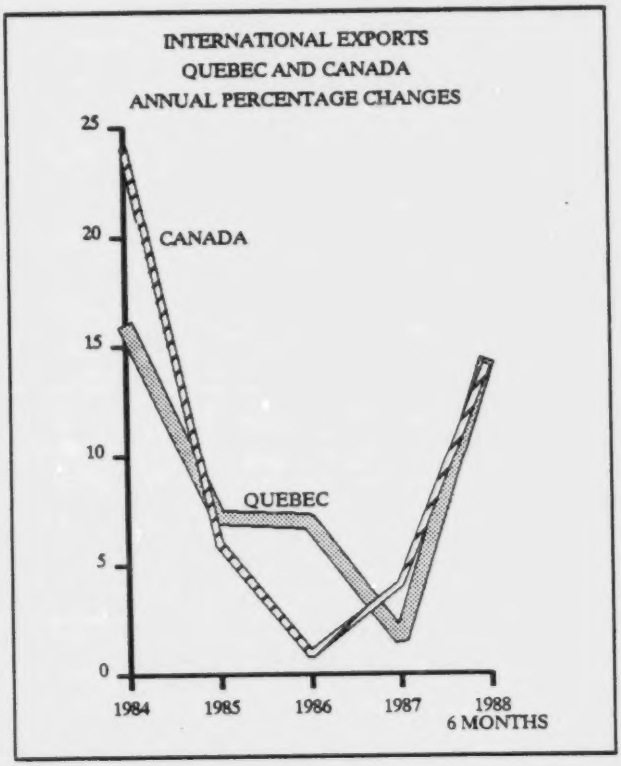
The sources of this renewed vigour were inedible fabricated materials (up 12.4%) and inedible end products (up 23.3%). More specifically, exports of aluminum and metal alloys jumped 21.6%, while printing paper and wood pulp exports, buoyed by considerably higher prices, rose 8.5% and 12.6% respectively. Also noteworthy was the 11.0% gain posted for electronic tubes, semiconductors and commercial telecommunication equipment.

In the first half of 1988, the value of exports loaded in Québec for shipment to the United States reached $8 182.3 million, a 12.9% hike over the year-earlier level. Québec's exports to other markets showed an even greater increase, however, which meant that the United States' share of Québec's total foreign exports declined to 75.9% from 77.3% in 1987.

The EEC is Québec's second biggest export customer. Boosting its imports from Québec by 19.8% in 1988, the EEC once again increased its share of Québec's total exports, which has been rising steadily since 1985 and hit 12.3% in 1988. West Germany led the upsurge in 1988, with imports from Québec soaring 48.3%. It was followed by the Netherlands (+19.1%), France (+18.3%) and the United Kingdom (+11.5%). Italy was the only EEC member that did not post a considerable hike in its imports from Québec.

Québec's exports to Japan showed even more spectacular growth, with a dramatic 47.5% increase in 1988, which raised Japan's share of Québec's total exports from 1.5% to 1.9%. Two factors sparked this surge: the strength of the yen, which gave Québec products a competitive price edge, and a slightly more open Japanese market.

Several factors suggest that the statistics for the second half of the year will show a fall-off in the growth of international exports loaded in Québec: most of the distortion caused by automobile exports will have been eliminated; the appreciation of the Canadian dollar should prove a hindrance to all exports; and the residential construction slowdown in the United States



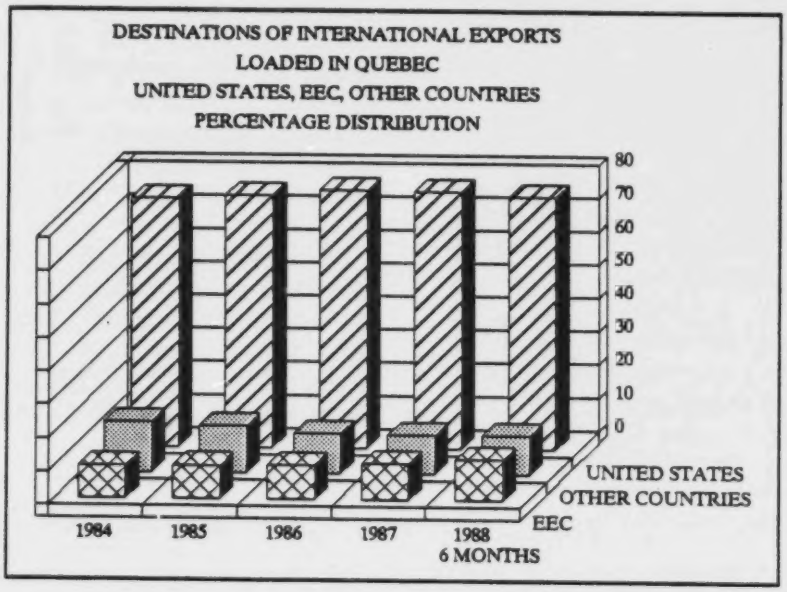
TOTAL CANADIAN EXPORTS LOADED IN QUEBEC
BY SECTION
1985-1988

SECTION	1985	1986	1987	1988 (6 months)	1986/1985	1987/1986	1988/1987 (6 months)
	(millions of dollars)				(percentage change)		
Live animals	23.7	15.7	23.5	11.8	-33.8	49.7	-11.3
Food, feed, beverages and tobacco	1 027.4	1 136.3	1 085.2	487.2	10.6	-4.5	-1.4
Crude materials, inedible	1 536.7	1 518.9	1 270.4	700.6	-1.2	-16.4	3.5
Fabricated materials, inedible	8 403.3	9 052.8	9 956.9	5 322.7	7.7	10.0	12.4
End products, inedible	7 159.8	7 902.7	7 540.0	4 140.3	10.4	-4.6	23.3
Special transactions - Trade	476.9	303.0	363.3	123.7	-36.5	19.9	-20.7
TOTAL	18 627.7	19 929.3	20 239.4	10 786.3	7.0	1.6	14.3

SOURCES: Bureau de la statistique du Québec, "Exportations du Canada chargées au Québec, par marchandises et pays"; Direction de l'analyse économique et des relations internationales, MICT.

should again dampen growth in lumber exports. For the year 1988 as a whole, the overall increase in Québec exports is expected to be somewhere around 8%.

In 1989, the Canada-United States Free Trade Agreement should have a positive impact on Québec's exports to the U.S. market. This impact will be limited, though, as only 15% of the tariffs in effect in 1988 were lifted when the Agreement came into force on January 1, 1989. The other tariffs will be phased out gradually. In addition, the Canadian dollar's climb will continue to crimp growth in Québec's exports to the United States, as will the expected economic slowdown in that country. Overall, international exports loaded in Québec should show more modest growth in 1989, i.e. in the neighbourhood of 5%.



QUEBEC'S INTERNATIONAL EXPORTS
1985-1988

DESTINATION		1985	1986	1987	1988 (6 months)	1986/1985	1987/1986	1988/1987 (6 months)
		(millions of dollars)				(percentage change)		
United States		14 116.3	15 452.5	15 645.9	8 182.3	9.5	1.3	12.9
	%	75.8	77.5	77.3	75.9			
EEC		1 888.5	2 049.5	2 228.9	1 321.5	8.5	8.8	19.8
	%	10.1	10.3	11.0	12.3			
Japan		327.3	300.2	338.2	208.1	-8.3	12.7	47.5
	%	1.8	1.5	1.7	1.9			
Other countries		2 295.6	2 127.1	2 026.4	1 074.4	-7.3	-4.7	14.0
	%	12.3	10.7	10.0	10.0			
TOTAL		18 627.7	19 929.3	20 239.4	10 786.3	7.0	1.6	14.3
	%	100.0	100.0	100.0	100.0			

SOURCES: Bureau de la statistique du Québec, "Commerce international du Québec, Edition 1986", "Exportations du Canada chargées au Québec, par marchandises et pays,1987"; Direction de l'analyse économique et des relations internationales, MICT.

UTILIZATION OF HUMAN RESOURCES

In 1988, Québec's manufacturing sector posted an unprecedented rise in employment. Wage increases continued to gain momentum and labour disputes again declined. Unit production cost trends show that, while Québec manufacturers saw their competitive position erode somewhat vis-à-vis their U.S. counterparts with the rise in the relative value of the Canadian dollar, they held their own in relation to their competitors across Canada.

(a) Employment

Québec's job creation prospects looked rather gloomy early in the year, particularly in the wake of the stock market crash. Still, Québec managed to repeat its outstanding performance of 1987.

With an overall net increase of 84 400 jobs in 1988 (first 11 months) over the employment level recorded a year earlier, Québec made its best showing in ten years, with the exception of 1987 when 100 000 new jobs were created. Not since the 1972-1974 period have there been two consecutive years with employment figures that good. The new jobs were shared equally by men and women, with employment gains of 2.8% and 2.9% respectively.

According to Statistics Canada data from the labour force survey, three sectors were responsible for Québec's excellent job-creation performance in 1988: manufacturing (47 700 new jobs), the service sector (+31 100 jobs), and construction (+18 600). The Québec manufacturing sector achieved an average employment gain of 8.3% in one year. Such strong growth in the number of new manufacturing jobs is unusual. The movement in 1988 picked up steam as the months went by and by November, the labour force survey results showed manufacturing to be the Québec sector boasting the largest 12-month increase in employment.

By comparison, the Ontario manufacturing sector presented a starkly different picture: total stagnation in employment (0.0% change). Labour force survey data show that, out of every four new manufacturing jobs created in Canada between November 1987 and November 1988, three were in Québec.

EMPLOYMENT, BY INDUSTRY
QUEBEC
AVERAGE (11 MONTHS)

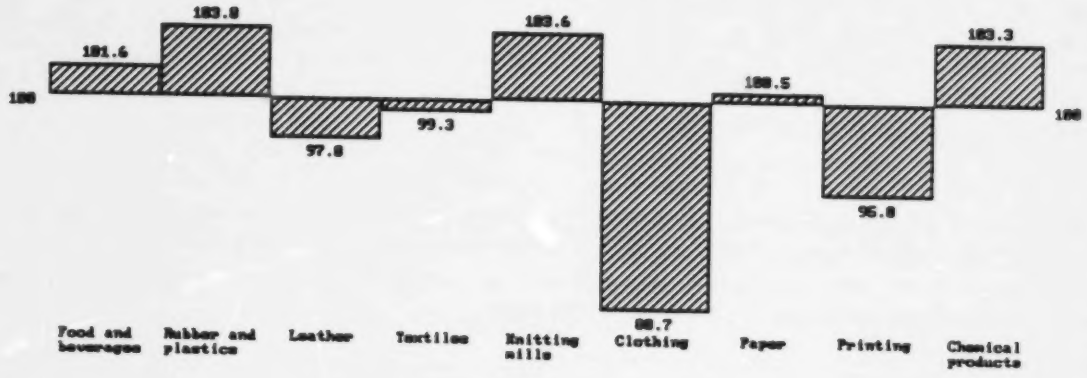
	TOTAL			FULL-TIME			PART-TIME		
	1987	1988	%	1987	1988	%	1987	1988	%
				(thousands)					
Agriculture	77.0	70.5	-8.4	63.8	58.0	-9.1	13.2	12.4	-6.1
Other primary industries	42.2	41.6	-1.4	41.2	40.7	-1.2	1.0	1.0	0.0
Manufacturing	572.9	620.6	8.3	556.1	599.4	7.8	17.0	21.3	25.3
Construction	159.7	178.3	11.6	152.6	168.6	10.5	7.0	9.5	35.7
Transportation, communication and other utilities	232.5	232.7	0.1	219.0	220.6	0.7	13.5	11.8	-12.6
Trade	520.9	519.5	-0.3	423.5	416.4	-1.7	97.4	102.7	5.4
Finance, insurance and real estate	167.4	169.0	1.0	150.0	153.3	2.2	17.4	15.7	-9.8
Service	984.8	1 015.9	3.2	769.5	794.0	3.2	215.3	222.0	3.1
Public administration	208.0	201.8	-3.0	192.2	190.6	-0.8	16.1	11.2	-30.4
TOTAL, ALL INDUSTRIES	2 965.5	3 049.9	2.8	2 567.7	2 642.0	2.9	397.7	407.8	2.5

SOURCES: Statistics Canada, The Labour Force Survey, special compilations;
Direction de l'analyse économique et des relations internationales, MICT.

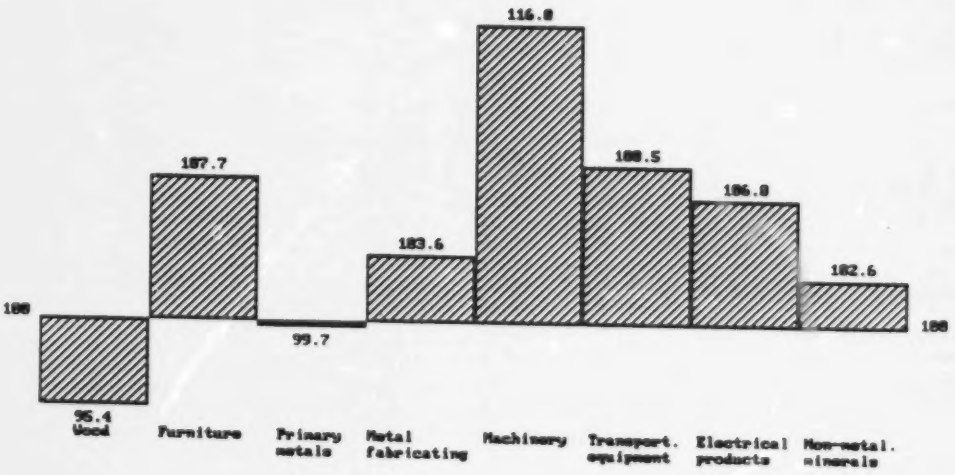
EMPLOYMENT
IN 1988

MANUFACTURING
QUEBEC (1987 = 100)

NON-DURABLE MANUFACTURING



DURABLE MANUFACTURING



Note: Comparison based on first 9 months of each year. Tobacco, petroleum and coal products are excluded because the size of the samples is too small.

SOURCES: Statistics Canada, Cat. 72-002; Direction de l'analyse économique et des relations internationales, MICT.

Information from the survey of payrolls (currently being revised) provides an overall breakdown of employment gains by major industry group in Québec's manufacturing sector. The survey data must be used with caution, given the small size of the samples involved. They indicate, however, that most of the new jobs were created by the durable goods industries.

(b) Wages

Wage increases in the Québec manufacturing sector continued to gain momentum in 1988; the growth in average hourly wages of employees paid by the hour rose from 2.4% in 1986 to 3.7% in 1987 and to 5.3% in 1988 (preliminary data for the first nine months).

The acceleration in 1988 came as no surprise after such a long period of economic expansion. However, the components of the increase were different. In 1987, the upward pressure came from durable manufacturing industries, where employment stagnated; non-durable goods industries combined a hefty increase in employment with a more moderate wage gain. In 1988, the situation was reversed.

In 1988, the durable goods sector boosted its production capacity, which meant a substantial capital spending hike as well as new jobs; on the other hand, average hourly earnings decelerated. The non-durable goods manufacturing industries, on the contrary, made more extensive use of their regular employees; as a result, the increase in average hourly earnings for this sector escalated from 2.3% in 1987 to 6.0% in 1988.

In June 1988, average hourly wages in Québec manufacturing industries reached $11.86, 89.2% of the corresponding figure for Ontario, the wage gap between the two provinces narrowing compared to year-earlier

AVERAGE HOURLY EARNINGS IN MANUFACTURING (INCLUDING OVERTIME)
EMPLOYEES PAID BY THE HOUR
QUEBEC
1985-1988

	1985	1986	1987	1988 (9 months)	1986/1985	1987/1986	1988/1987 (9 months)
			(dollars)			(percentage change)	
Food and beverages	10.86	11.31	11.65	12.07	4.2	3.0	4.4
Tobacco products	17.54	18.89	20.18	21.18	7.7	6.8	3.7
Rubber and plastics products	9.71	10.37	10.46	10.55	6.8	0.9	1.3
Leather	7.14	7.22	7.54	7.76	1.1	4.5	3.2
Textiles	8.34	8.75	9.21	9.55	4.9	5.2	4.3
Knitting mills	7.75	7.67	7.42	7.63	-1.0	-3.3	3.1
Clothing	7.72	7.72	7.29	7.54	0.0	-5.6	4.4
Wood	9.46	9.71	9.90	10.16	2.6	2.0	3.8
Furniture	8.20	7.98	8.97	9.10	-2.7	12.4	1.9
Paper and allied products	14.11	14.89	15.38	15.95	5.6	3.3	4.0
Printing, publishing, etc.	12.15	12.81	12.87	13.76	5.4	0.5	6.4
Primary metals	14.76	15.06	15.33	15.65	2.0	1.8	2.7
Metal fabricating	10.67	11.05	11.24	11.77	3.6	1.7	5.8
Machinery	10.32	10.61	11.53	12.06	2.8	8.7	5.2
Transportation equipment	12.62	12.69	12.94	13.48	0.6	2.0	5.1
Electrical products	10.83	11.10	11.80	12.18	2.5	6.3	3.3
Non-metallic mineral products	11.82	12.26	12.57	12.73	3.8	2.5	1.5
Petroleum products	17.21	15.69	16.08	13.58	-8.8	2.5	-15.0
Chemical products	11.72	12.22	12.69	12.98	4.2	3.8	2.9
Miscellaneous manufacturing	7.30	7.46	7.88	8.94	2.2	5.6	14.5
Durable goods	11.09	11.14	11.72	12.09	0.4	5.2	3.9
Non-durable goods	10.24	10.65	10.90	11.48	4.0	2.3	6.0
TOTAL	10.60	10.85	11.25	11.76	2.4	3.7	5.3

N.B. For the years prior to 1987, the data for the various industries and for the totals have been corrected using Statistics Canada's adjustment factors.

SOURCES: Statistics Canada, Cat. 72-002; SIC, 1970; Direction de l'analyse économique et des relations internationales, MICT.

results. Similarly, owing in particular to movements in currency exchange rates over the same reference period, the Québec wage level rose to 95.9% of the wages paid in U.S. manufacturing industries.

Average weekly earnings for all employees in manufacturing went up 5.2% in 1988, to $503.72. The two industry groups with weekly earnings of more than $700 in 1987 (tobacco products and petroleum and coal products) also posted two of the three largest earnings gains in 1988 (8.5% and 7.6% respectively). At the other end of the scale, three of the four Québec industry groups recording average weekly earnings of less than $400 in 1987 ranked far behind the other groups in terms of earnings growth in 1988: knitting mills (+0.8%), clothing (-0.4%) and furniture (+0.3%).

(c) Labour Relations

Over the first eight months of 1988, 26.6% fewer person-days were lost in work stoppages than during the corresponding period in 1987, and 1987 was a good year in terms of labour relations, with a 23% drop in the number of person-days lost compared to 1986.

Chemical industries were the only group to register a sharp increase in the number of person-days lost in 1988 as a result of work stoppages. Strikes and lock-outs in explosives manufacturing firms (IVI Inc., Expro) were the principal causes of the deterioration in the labour relations indicator for this industry group. Wood industries also recorded a substantial, but far lesser, increase in the number of person-days lost in work stoppages.

Of the 680 collective agreements which expired during the first ten months of 1988, 88.4% involved no work stoppages over that period. However, the average number of work days lost per person climbed from 22.4 days in 1987 to 35.3 days for the first ten months of 1988.

AVERAGE HOURLY EARNINGS
MANUFACTURING
JUNE 1988

	QUEBEC	ONTARIO	CANADA	U.S.(1)	QUE/CAN.	QUE/ONT.	QUE/U.S.
	(dollars)			(C$)		(percentage)	
Food and beverages	12.15	12.64	11.79	11.10	103.1	96.1	109.5
Tobacco products	21.43	23.26	22.06	19.21	97.1	92.1	111.6
Rubber and plastics products	10.55	11.18	11.13	11.03	94.8	94.4	95.6
Leather	7.81	8.42	8.13	7.63	96.1	92.8	102.4
Textiles	9.46	11.39	10.40	8.92	91.0	83.1	106.1
Knitting mills	7.79	7.96	7.78	---	100.1	97.9	---
Clothing	7.62	7.91	7.55	---	100.9	96.3	---
Wood	10.04	10.70	12.28	10.46	81.8	93.8	96.0
Furniture	9.17	10.09	9.62	9.61	95.3	90.9	95.4
Paper and allied products	16.24	15.25	16.42	14.16	98.9	106.5	114.7
Printing and publishing	13.75	12.68	12.94	12.71	106.3	108.4	108.2
Primary metals	15.60	16.22	16.11	14.80	96.8	96.2	105.4
Metal fabricating	11.75	12.70	12.65	12.50	92.9	92.5	94.0
Machinery	12.13	13.10	12.87	13.31	94.3	92.6	91.1
Transportation equipment	13.80	15.85	15.24	16.29	90.6	87.1	84.7
Electrical products	12.17	12.16	12.20	12.36	99.8	100.1	98.5
Non-metallic mineral products	12.76	14.11	13.61	12.75	93.8	90.4	100.1
Petroleum products	12.76	16.06	15.97	18.31	79.9	79.5	69.7
Chemical products	13.12	13.93	13.76	15.34	95.3	94.2	85.5
Miscellaneous manufacturing	9.05	11.35	10.35	9.65	87.4	79.7	93.8
Durable goods	12.13	13.93	13.47	13.03	90.1	87.1	93.1
Non-durable goods	11.64	12.32	12.07	11.43	96.4	94.5	101.8
TOTAL	11.86	13.30	12.82	12.37	92.5	89.2	95.9

(1) Conversion rate: C$1.2174=US$1.00 (average June 1988).

SOURCES: Statistics Canada, Cat. 72-002, August 1988; SIC, 1970; U.S. Department of Commerce, "Survey of Current Business, August 1988"; "Bank of Canada Review, August 1988"; Direction de l'analyse économique et des relations internationales, MICT.

Collective agreements covering more than 88 000 Québec manufacturing workers were up for renewal in 1988. By early November, 64 500 of these workers had renewed their contracts without any labour disputes or were still negotiating. In 1989, at least 808 collective agreements are due to expire. This means that 69 308 workers will be engaged in collective bargaining in 1989, 21.6% fewer than in 1988. Industries in which a significant number of collective agreements will expire or a large percentage of employees will be negotiating new contracts include food and beverages, with 141 collective agreements, metal fabricating, 83, and printing and publishing, 70.

UTILIZATION OF OTHER FACTORS OF PRODUCTION

(a) Capacity Utilization Rates

Despite an already good performance in 1987, the capacity utilization rate in Canadian manufacturing industries again rose in 1988, reaching 81.5% in the second quarter and topping the 80% mark for the first time since 1981.

The growth in 1988 was quite broadly based, with 15 of the 22 industry groups boosting their capacity utilization rates. Durable goods industries posted the largest increase, though their rate remained below the average for manufacturing as a whole.

Six Canadian industries were operating at virtually full capacity in 1988, with rates in excess of 95%:

AVERAGE WEEKLY EARNINGS IN MANUFACTURING (INCLUDING OVERTIME)
ALL EMPLOYEES
QUEBEC
1985-1988

	1985	1986	1987	1988 (9 months)	1986/1985	1987/1986	1988/1987 (9 months)
	(dollars)				(percentage change)		
Food and beverages	430.29	458.69	478.06	493.75	6.6	4.2	3.7
Tobacco products	677.83	714.19	746.84	807.16	5.4	4.6	8.5
Rubber and plastics products	412.03	438.67	435.27	450.04	6.5	-0.8	2.4
Leather	285.46	304.52	316.76	324.86	6.7	4.0	3.3
Textiles	371.57	391.46	410.45	436.72	5.4	4.9	7.5
Knitting mills	319.07	316.11	335.20	337.92	-0.9	6.0	0.8
Clothing	318.99	320.06	305.78	305.51	0.3	-4.5	-0.4
Wood	411.83	409.17	413.08	431.73	-0.6	1.0	6.5
Furniture	340.49	344.91	379.21	377.25	1.3	9.9	0.3
Paper and allied products	588.41	617.64	638.73	662.92	5.0	3.4	4.5
Printing, publishing, etc.	441.09	456.96	492.24	533.72	3.6	7.7	8.7
Primary metals	632.17	643.00	671.39	678.36	1.7	4.4	2.0
Metal fabricating	440.96	454.94	468.60	491.56	3.2	3.0	5.8
Machinery	474.64	480.15	521.30	532.74	1.2	8.6	2.3
Transportation equipment	563.45	572.00	594.30	611.45	1.5	3.9	4.1
Electrical products	506.39	525.91	552.21	579.51	3.9	5.0	5.5
Non-metallic mineral products	472.42	510.32	534.11	549.58	8.0	4.7	3.1
Petroleum products	716.30	701.44	761.22	812.76	-2.1	8.5	7.6
Chemical products	532.47	551.44	589.04	609.31	3.6	6.8	4.1
Miscellaneous manufacturing	324.23	332.77	355.27	390.21	2.6	6.8	10.4
Durable goods	484.98	489.88	518.94	535.90	1.0	5.9	4.2
Non-durable goods	419.85	436.33	456.82	480.27	3.9	4.7	5.6
TOTAL	445.39	457.56	481.93	503.72	2.7	5.3	5.2

N.B. For the years prior to 1987, the data for the various industries and for the totals have been corrected using Statistics Canada's adjustment factors.

SOURCES: Statistics Canada, Cat. 72-002; SIC, 1970; Direction de l'analyse économique et des relations internationales, MICT.

LABOUR DISPUTES, MANUFACTURING SECTOR
QUEBEC
9 MONTHS, 1988

	Number of employees	Person-days lost	
		Number	% of estimated working days (1)
TOTAL MANUFACTURING	531 570	330 571	0.3
Food and beverages	56 900	8 575	0.1
Tobacco products	3 000	...	...
Rubber and plastics	18 000	4 824	0.1
Leather	7 800	75	0.0
Textiles, knitting mills and clothing	93 400	19 480	0.1
Wood	31 000	40 394	0.7
Furniture and fixtures	21 800	19 957	0.5
Paper and allied products	44 800	43 028	0.5
Printing and publishing	32 600	7 072	0.1
Primary metals	25 700	13 206	0.3
Metal fabricating	35 500	24 805	0.4
Machinery	21 400	11 030	0.3
Transportation equipment	38 900	14 606	0.2
Electrical products	34 500	22 311	0.3
Non-metallic mineral products	15 300	2 129	0.1
Petroleum and coal products	3 200	...	...
Chemical products	25 900	99 079	2.0
Miscellaneous manufacturing	21 900	...	...

(1) The estimated number of working days for the first 9 months of 1988 is 189.

SOURCES: Statistics Canada, Cat. 72-002; Travail Québec, special compilations; SIC,1970; Direction de l'analyse économique et des relations internationales, MICT.

PERSON-DAYS LOST IN WORK STOPPAGES
MANUFACTURING
QUEBEC
1985-1988

	1985	1986	1987	1988 (10 months)	1986/1985	1987/1986	1988/1987 (10 months)
	(number)				(percentage change)		
Food and beverages	90 720	77 585	98 365	9 188	-14.5	26.8	-90.7
Tobacco products	...	...	...	...	...	...	...
Rubber and plastics products	87 328	12 700	10 684	5 004	-85.5	-15.9	-48.7
Leather	3 150	...	6 868	75	...	...	...
Textiles	85 798	10 314	8 780	9 690	-88.0	-14.9	10.4
Knitting mills	2 092	1 530	4 905	...	-26.9	220.6	...
Clothing	3 859	51 684	90 660	11 510	1 239.3	75.4	-87.2
Wood	47 154	44 370	16 497	46 239	-5.9	-62.8	195.7
Furniture and fixtures	16 530	21 959	17 399	22 792	32.8	-20.8	50.1
Paper and allied products	37 120	18 449	60 938	44 582	-50.3	230.3	-25.7
Printing and publishing	7 516	8 168	31 191	7 072	8.7	281.9	-65.2
Primary metals	26 031	118 266	23 924	13 206	354.3	-79.8	36.1
Metal fabricating	17 973	47 480	25 518	26 599	164.2	-46.3	18.1
Machinery	14 273	53 362	79 388	11 030	273.9	48.8	-84.9
Transportation equipment	196 228	9 569	20 630	14 606	-95.1	115.6	-22.0
Electrical products	22 297	46 147	50 851	22 311	107.0	10.2	-9.0
Non-metallic mineral products	19 740	36 249	5 650	2 129	83.6	-84.4	-59.5
Petroleum and coal products	...	...	...	...	...	...	...
Chemical products	37 919	3 808	6 818	107 164	-90.0	79.0	3203.5
Miscellaneous manufacturing	20 031	4 424	...	...	-77.9	...	...
TOTAL	735 759	566 064	559 066	353 197	-23.1	-1.2	-27.5

SOURCES: Travail Québec, "Grèves et lock-out au Québec"; SIC, 1970;
Direction de l'analyse économique et des relations internationales, MICT.

plastics products, primary textiles, textile products, clothing, printing and publishing, and electrical products. Equally impressive was the upward trend maintained in 1988 by the primary metal industries despite added production capacity coming on stream during the year. Capacity utilization continued to decline, however, in the leather and miscellaneous manufacturing industries.

It can be assumed that this favourable picture of Canadian capacity utilization portrays the situation in Québec as well since the manufacturing industries which are pillars of Québec's industrial structure generally posted high capacity utilization rates or sizeable increases in 1988.

This greater utilization of production capacity is expected to create upward pressure on industrial prices over the second half of 1988 and into 1989 but that pressure should be partly offset by a stronger Canadian dollar.

(b) Investment

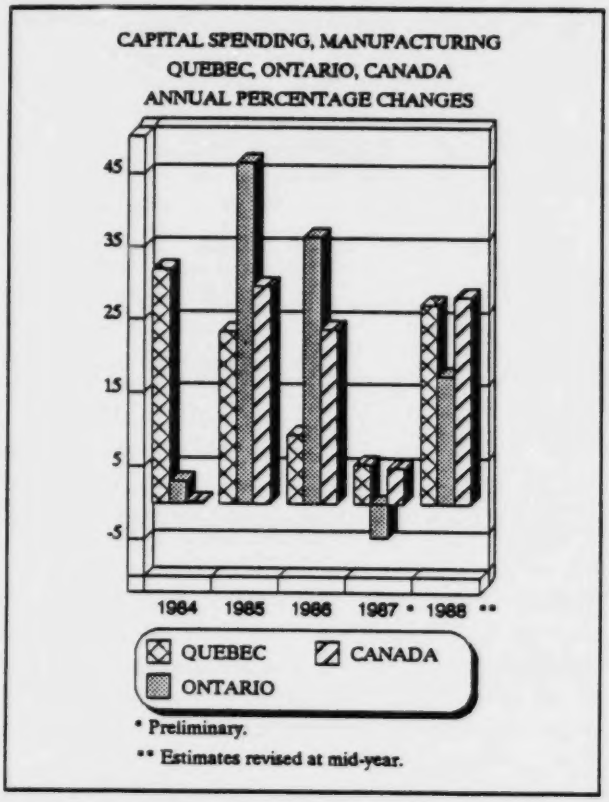
For the second year in a row, all sectors of the Québec economy registered investment increases. Capital expenditures were thus an important component of economic growth in 1988. Total capital spending in Québec for the year 1988 should exceed $27 billion, up 13.2% past the 1987 level, which was already exceptionally high. That would boost Québec's share of total capital spending in Canada to 22.2%, a level that has not been surpassed in the last ten years.

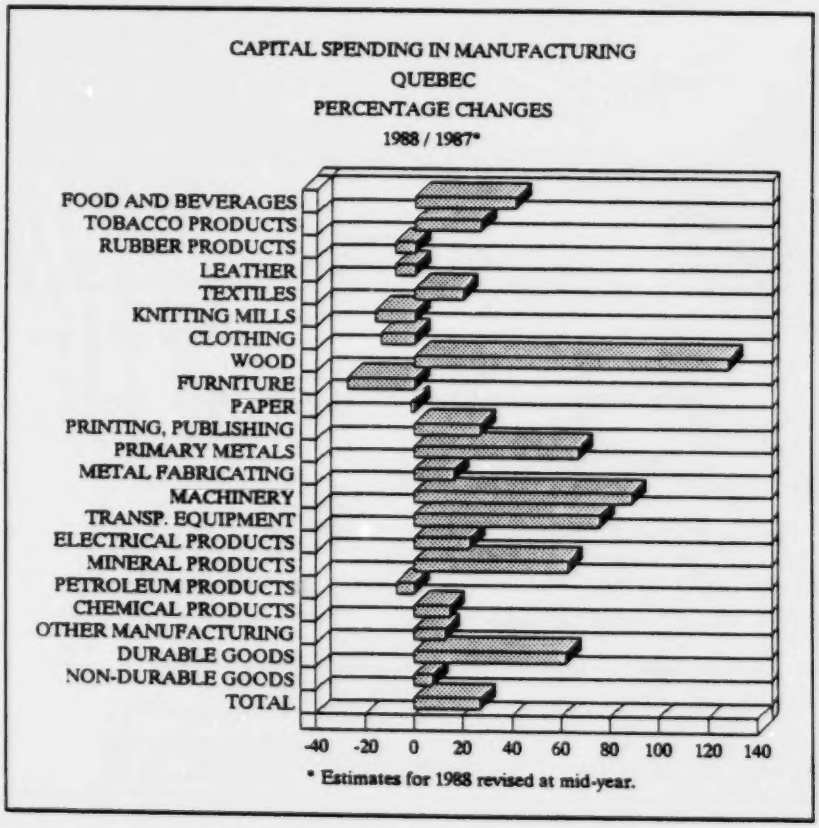
With an increase of 20.6%, the manufacturing sector was clearly the leader of the capital spending upsurge in Québec. This confirms the healthy picture portrayed by the excellent employment statistics. The concerns

CAPACITY UTILIZATION RATES
CANADA
1985-1988

INDUSTRY	1985	1986	1987	1988 I	1988 II
Food	81.8	82.3	81.4	81.4	81.7
Beverages	60.1	62.1	60.8	61.7	61.9
Tobacco products	56.2	49.9	48.5	46.3	50.2
Rubber products	91.1	82.8	77.2	75.1	75.2
Plastics products	92.4	91.3	96.4	97.9	97.7
Leather	93.6	94.5	86.9	84.3	82.9
Primary textiles	83.8	85.8	95.8	98.4	96.6
Textile products	88.1	90.2	96.3	98.6	95.7
Clothing	90.2	95.7	98.1	98.1	96.3
Wood	86.7	86.6	96.5	92.9	94.2
Furniture	71.8	72.8	74.2	76.9	74.5
Paper and allied products	84.7	88.8	91.2	92.8	90.9
Printing and publishing	93.0	94.1	94.0	95.7	97.8
Primary metals	72.1	69.8	74.2	78.3	80.7
Metal fabricating	75.8	73.2	76.8	79.7	77.7
Machinery	57.2	58.2	59.1	64.3	63.6
Transportation equipment	77.0	70.2	61.1	62.0	65.1
Electrical products	81.2	84.3	91.4	100.0	100.0
Non-metallic mineral products	67.4	70.4	78.9	81.1	79.9
Petroleum products	70.2	71.5	73.1	75.0	75.9
Chemical products	67.6	67.6	69.6	71.4	70.8
Misc. manufacturing	84.8	79.6	74.0	71.2	71.2
Durable goods	75.2	73.6	75.4	78.2	78.9
Non-durable goods	81.3	82.7	83.8	84.7	84.3
TOTAL	78.1	77.9	79.3	81.3	81.5

SOURCE: Statistics Canada, Cat. 31-003.





expressed at the end of 1987 about the impact of the stock market crash proved unfounded. For the fifth year in succession, economic expansion was reflected in higher capital spending by Québec manufacturers.

Québec played a starring role in Canada's surprisingly good investment performance in 1988. The robust health of Québec manufacturing investment was such that Statistics Canada raised its estimates of capital spending growth in 1988 by two-thirds in Québec's case, compared to only 23% for the rest of Canada.

The revised investment intentions of Québec manufacturers for 1988 show a 33.6% increase in capital outlays for construction and a 25.7% rise in expenditures for machinery and equipment.

In Québec, the greatest gains were seen in the durable goods industries (61.9%) whereas, in Ontario, it was the non-durable goods sector that reported the strongest advances. Capital spending increases in the Québec manufacturing sector were largest in the following industry groups: wood (128.1%), machinery (88.8%), transportation equipment (75.9%), primary metals (67.0%) and non-metallic mineral products (62.8%). In all these industries, expenditures reached unusually high levels. The most significant capital spending performance was that of the primary metal industries. With investment intentions of $816 million, this industry group accounted for 38% of the total capital spending planned by durable goods producers for 1988.

In non-durable manufacturing, it was the paper industries that captured the leading role, with 46% of the capital spending total for producers of non-durables. Capitalizing on sustained world demand, paper industries came very close to repeating their 1987 performance, with investment intentions of $1 090 million for 1988.

(c) Research and Development

R&D expenditures by Québec's manufacturing industry dipped slightly in 1986 (the most recent year for which official statistics are available), registering the second yearly decrease since 1981. However, the information available indicates a significant upsurge in technological development activity since 1986. The eight leading companies in terms of R&D activity in Québec (Pratt & Whitney, Canadair, Alcan, CAE, Marconi, Domtar, Matrox and Molson) boosted their aggregate R&D expenditures in Canada by more than 25% over the period 1986-1988, from $394 million to $503 million. It can be assumed that a sizeable proportion of the total budget was spent in Québec. For the Québec manufacturing sector as a whole, it is estimated that expenditures of close to $775 million were incurred for technological development in 1988.

The overall growth in Québec's manufacturing R&D expenditures since 1981 is much the same as that observed at the Canadian level. However, Québec's share of all technological activity in Canadian manufacturing industries shrank from 25.6% in 1984 to 23.7% in 1986. There is no indication that this percentage has changed since then.

Three industry groups are still the key players in terms of manufacturing R&D: transportation equipment, electrical and electronic products, and chemical products. In Québec, as in Canada as a whole, these three sectors are playing an increasingly important role and already account for close to 75% of all manufacturing R&D spending.

Transportation equipment, with aeronautics as the spearhead, is the number one technological sector in

CAPITAL SPENDING IN MANUFACTURING
BY INDUSTRY
QUEBEC
1985-1988

INDUSTRY	1985	1986	1987*	1988**	1986/85	1987/86	1988/87
	(millions of dollars)				(percentage change)		
Food and beverages	231.2	202.3	245.2	346.1	-12.5	21.2	41.2
Tobacco products	44.7	34.8	29.9	38.0	-22.1	-14.1	27.1
Rubber products	48.0	80.5	78.2	71.7	67.7	-2.9	-8.3
Leather	3.5	3.6	3.7	3.4	2.9	2.8	-8.1
Textiles	73.6	78.1	86.2	103.2	6.1	10.4	19.7
Knitting mills	7.9	12.4	13.1	11.0	57.0	5.6	-16.0
Clothing	15.5	19.3	25.5	22.0	24.5	32.1	-13.7
Wood	99.6	86.4	82.3	187.7	-13.3	-4.7	128.1
Furniture and fixtures	12.7	26.3	36.4	26.4	107.1	38.4	-27.5
Paper and allied products	688.4	1 023.0	1 103.8	1 089.3	48.6	7.9	-1.3
Printing, publishing, etc.	55.6	89.8	68.4	86.9	61.5	-23.8	27.0
Primary metals	918.5	576.6	488.6	815.8	-37.2	-15.3	67.0
Metal fabricating	73.5	93.3	107.1	124.3	26.9	14.8	16.1
Machinery	96.4	70.0	92.3	174.3	-27.4	31.9	88.8
Transportation equipment	124.9	137.4	274.6	483.0	10.0	99.9	75.9
Electrical products	153.3	155.5	158.4	194.5	1.4	1.9	22.8
Non-metallic mineral products	48.7	95.4	78.8	128.3	95.9	-17.4	62.8
Petroleum and coal products	72.4	89.5	120.3	111.5	23.6	34.4	-7.3
Chemicals and chemical products	250.5	402.1	365.1	418.4	60.5	-9.2	14.6
Miscellaneous manufacturing	43.7	51.2	42.9	48.3	17.2	-16.2	12.6
Capital items charged to operating expenses	331.9	386.4	413.6	492.8	...	...	...
Durable goods	1 527.6	1 240.9	1 318.5	2 134.3	-18.8	6.3	61.9
Non-durable goods	1 535.0	2 086.6	2 182.3	2 349.8	35.9	4.6	7.7
TOTAL	3 394.5	3 713.9	3 914.4	4 976.9	9.4	5.4	27.1

* Preliminary. ** Estimates revised at mid-year.

SOURCES: Statistics Canada, "Private and Public Investment in Canada" (Cat. 61-205 and 61-206); SIC, 1970; Direction de l'analyse économique et des relations internationales, MICT.

Québec and number two in Canada. The two leading companies in this field are Pratt & Whitney, with the largest privately owned research centre in Québec, and Canadair, whose R&D budget has more than doubled in the past two years. Québec's share of the technological activity in the Canadian transportation equipment industry dropped from 54% in 1984 to 47% in 1986.

The electrical and electronic products industry ranks second in Québec in terms of technological activity and first in Canada as a whole. It is also the most dynamic sector. In Québec, its share of manufacturing R&D spending rose from 22% to 30% between 1981 and 1986. In Canada as a whole, the industry's share of the spending total is even greater; it reached 46% in 1986 and probably 48% in 1988. Québec's share of the Canadian industry's total technological activities has remained in the region of 15% for a number of years.

The chemical products industry has accounted for some 11% of all R&D spending in the Québec manufacturing sector in recent years. With the passage of Bill C-22 providing better patent protection for pharmaceuticals, R&D spending in this sector is expected to mushroom. New development projects have already been announced by several pharmaceutical companies, including Merck Frosst, Squibb and Ciba-Geigy.

There are a number of factors which influence the development of technological activities in Québec businesses, notably market prospects, the availability of capital and specialized labour, and government action. With regard to the last factor, in addition to Bill C-22 which increases pharmaceutical patent protection, due note should be taken of current Canadian and U.S. policy directions in the area of defence equipment purchases, because of the size of this market and the high technological content of defence products.

Also to be considered are the enhanced technological development support programs of the Québec and Canadian governments. The R&D tax incentives introduced in the 1987 and 1988 Québec budgets will

RESEARCH AND DEVELOPMENT EXPENDITURES
QUEBEC, CANADA
1981-1988

	1981	1982	1983	1984	1985	1986	1987	1988
QUEBEC				(millions of dollars)				
Main sectors								
Transportation equipment	167	189	179	197	217	224	n.a.	n.a.
Electrical and electronic products	90	109	100	145	183	194	n.a.	n.a.
Chemical products	43	54	64	64	67	70	n.a.	n.a.
Manufacturing R&D	419	483	469	578	657	646	n.a.	n.a.
Industrial R&D	480	573	582	719	862	872	n.a.	n.a.
CANADA								
Manufacturing R&D	1 700	1 958	2 021	2 256	2 603	2 724	3 056 E	3 264 E
Industrial R&D	2 125	2 489	2 585	2 994	3 619	3 828	4 158 E	4 427 E
QUEBEC/CANADA RATIOS								
Manufacturing R&D	24.6	24.7	23.2	25.6	25.2	23.7	...	...
Industrial R&D	22.6	23.0	22.5	24.0	23.8	22.8	...	...

n.a.: not available. E: Estimate.

SOURCES: Statistics Canada, "Industrial Research and Development Statistics, 1986" (Cat. 88-202);
Direction de l'analyse économique et des relations internationales, MICT.

encourage increased R&D activities in Québec business firms, as will the $300-million technology fund that will be used to support certain strategic development policies over the next five years. The results will be all the more significant if the goal of greater synergy between private enterprise, universities and government is achieved.

The Canada-U.S. Free Trade Agreement (FTA) will very probably influence technological development in Québec and throughout Canada but its impact is as yet difficult to assess. The FTA contains no provisions relating specifically to technological activities. Of course, the increased mobility of business people will benefit manufacturers of advanced-technology products. Stiffer competition and easier access to the vast U.S. market will prompt businesses to introduce innovative products and production methods. One fact should be made clear, however. Companies engaged in Québec's two leading technological sectors—electronics and aerospace—are already operating in a largely international market and the game rules in these two sectors will remain virtually the same under the FTA.

COMPETITIVENESS

(a) Unit Labour Costs and Productivity

Productivity trends in Québec should be analyzed in the light of an international perspective. Between 1979 and 1987, productivity growth gained momentum in the United States, Canada, Italy, Norway, Sweden and the United Kingdom. Canada, however, was outperformed by the United States over this period, with a 2.2% growth rate compared to 3.4%. Spectacular currency realignments were largely responsible for the general trend observed in the industrialized countries for manufacturers' unit labour costs on a U.S. dollar basis. Between 1979 and 1985, the U.S. dollar rose substantially against the currencies of the other industrialized countries; hence unit labour costs in U.S. dollar terms registered negative growth in all the industrialized countries except the United States and Canada, which posted respective growth rates of 3.3% and 3.1%.

Thus, the competitive position of North American manufacturing industries weakened considerably from 1979 to 1985. However, a complete turnaround of this trend occurred in 1986 and 1987. Over that two-year period, European and Japanese currency values rose sharply relative to the U.S. dollar, reversing the overall trend in unit labour costs expressed in U.S. dollars. In Canada, however, labour costs continued to climb, by 2.4% in 1986 and by 7.7% in 1987, as the Canadian dollar appreciated against the U.S. currency in 1987. In relation to Japan and European countries, however, Canada's competitive position improved markedly.

Unit labour cost trends in Québec are comparable to those seen across Canada between 1979 and 1987. Over that period, manufacturing labour productivity and unit labour costs posted respective increases of 23.4% and 47% in Québec, compared to 20.7% and 50.8% Canada-wide. In 1988, Québec manufacturers on the whole maintained their competitive position in relation to their other Canadian competitors, with unit labour costs rising by 1.8% in Québec and by 1.2% in Canada over the first eight months of the year.

In 1988, Québec's competitive position declined, however, in relation to the U.S. Unit labour costs did not increase in the United States and the Canadian dollar's 7.5% gain in value relative to the U.S. dollar added a serious handicap. What is more, the Canadian dollar's value rose slightly against the currencies of France and West Germany. On the other hand, the appreciation of the yen and the pound sterling against the Canadian dollar gave Québec manufacturers an edge over their Japanese and U.K. competitors.

The Québec industries which posted the largest gains in manufacturing productivity over the period 1981-1987 were the wood industry (38.4%), tobacco products (39.1%), textile products (21.0%) and primary metals (56.0%). The failure of the transportation equipment industry to rank among the top performers was due to the shutdown of GM's Boisbriand auto plant for retooling, which halted production for much of the first half of 1987. Prior to that, the industry's track record had been very good, with labour productivity climbing 31.1% from 1981 to 1986.

Three industry groups in Québec registered weak productivity growth: food (3.1%), furniture (4.0%) and printing and publishing (0.3%). The beverage and machinery industries sustained productivity losses of 14.8% and 11.2% respectively; however, their productivity stopped falling during the period 1983-1985 and has even edged up a bit since then.

From 1981 to 1987, labour productivity and unit labour cost trends remained closely linked. Industries

that achieved the largest productivity gains also recorded unit labour cost increases below the manufacturing sector average of 25.8%: tobacco products (22.8%), textile products (11.6%), wood (-2.7%) and primary metals (0.8%). Accordingly, industries with the weakest productivity growth posted the greatest increases in unit labour costs: food (34.7%), beverages (55.7%), primary textiles (30.4%), printing (49.6%), machinery (39.9%) and electrical and electronic products (32.4%).

The labour productivity indicator does not take into account any improvement in product quality and it therefore tends to underestimate real productivity changes. Over the period 1981-1987, the price increases in the beverage (41.8%) and machinery (30.6%) industries outpaced the average price rise in the manufacturing sector as a whole (22.8%). The price increase differentials could reflect an improvement in product quality.

AVERAGE ANNUAL RATES OF CHANGE IN UNIT LABOUR COSTS
MAIN INDUSTRIALIZED COUNTRIES
MANUFACTURING

COUNTRY	1979-1987 (1)		1979-1985		1986		1987	
	(2)	(3)	(2)	(3)	(2)	(3)	(2)	(3)
United States	2.2	2.2	3.3	3.3	-0.4	-0.4	-1.5	-1.5
Canada	5.2	3.6	5.8	3.1	4.1	2.4	2.7	7.7
Japan	-0.6	4.7	-0.8	-2.3	3.2	46.1	-2.5	13.5
Belgium	1.4	-4.5	1.7	-9.6	0.0	32.8	(1)	(1)
Denmark	6.2	2.7	6.2	-5.5	4.5	36.8	7.7	27.4
France	7.3	2.7	9.4	-3.4	2.5	32.9	-0.2	14.9
Germany	2.9	3.2	3.0	-4.8	2.7	39.2	2.7	23.9
Italy	8.9	3.0	11.1	-3.3	2.4	31.1	2.6	18.0
Netherlands	1.0	-1.8	0.7	-7.4	2.7	39.2	(1)	(1)
Norway	7.7	3.9	7.1	-1.9	10.4	28.2	8.4	19.0
Sweden	6.1	1.0	6.3	-5.4	7.2	29.3	4.2	17.0
United Kingdom	5.2	1.9	6.0	-2.4	4.8	18.5	1.1	13.0

(1) For Belgium and the Netherlands, data for 1987 are not available.
(2) National currency basis.
(3) U.S. dollar basis.

SOURCES: Bureau of Labor Statistics, U.S. Department of Labor, July 1988;
Direction de l'analyse économique et des relations internationales, MICT.

AVERAGE ANNUAL RATES OF CHANGE IN LABOUR PRODUCTIVITY
MAIN INDUSTRIALIZED COUNTRIES
MANUFACTURING

COUNTRY	1960-1973	1973-1987 (1)	1973-1979	1979-1987 (1)
United States	3.2	2.5	1.4	3.4
Canada	4.5	2.1	2.1	2.2
Japan	10.3	5.3	5.5	5.1
Belgium	6.9	5.9	6.0	5.7
Denmark	6.4	2.7	4.2	1.6
France	6.5	3.9	4.8	3.2
Germany	5.8	3.3	4.3	2.6
Italy	7.5	4.1	3.3	4.6
Netherlands	7.4	4.5	5.5	3.7
Norway	4.3	2.5	2.1	2.9
Sweden	6.4	2.8	2.6	2.9
United Kingdom	4.2	3.2	1.2	4.7

(1) For Belgium and the Netherlands, data for 1987 are not available.

SOURCES: Bureau of Labor Statistics, U.S. Department of Labor, July 1988;
Direction de l'analyse économique et des relations internationales, MICT.

(b) Profits and Bankruptcies

The profit picture in the Québec manufacturing sector remained rosy in 1988. A few isolated cases of major bankruptcies do not necessarily indicate a significant reversal of the downward trend in bankruptcies which began in 1982. Nevertheless, the behaviour of this indicator at year-end and into 1989 should be closely monitored.

Profits

For the sixth year in a row, Canadian manufacturers posted an increase in basic earnings. Following a 1986-1987 leap of 19.4%, basic earnings made a 1987-1988 gain of 20.4% (comparing levels after the third quarter of the past two years). Once again, profit growth was spurred by a moderate rise in costs coupled with strong domestic demand.

The two industry groups which alone accounted for close to 40% of total capital spending in Québec manufacturing made a particularly good profit showing in 1988: Canadian manufacturers' earnings shot up by 24.2% in the pulp and paper industry and by 58% in the primary metal industry.

Bankruptcies

With the single exception of one year, the number of commercial failures in Québec and throughout Canada has fallen steadily since 1982; in Québec, the drop was both faster and sharper.

Data for the first ten months of 1988, however, appear to indicate an upward swing in Québec, particularly in the manufacturing sector, where the number of bankruptcies increased by 38 (22%) and the liabilities invoived, by $50 million (106%).

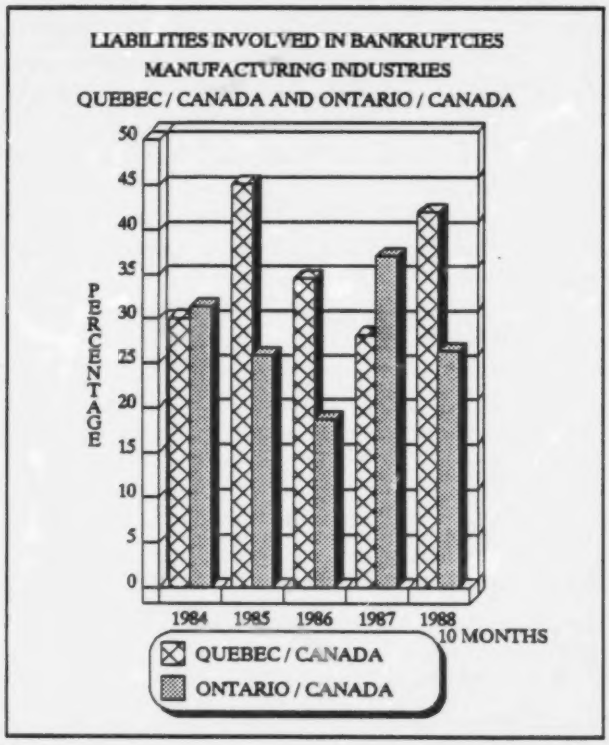
CHANGES IN LABOUR PRODUCTIVITY, PRODUCTION WAGES AND UNIT LABOUR COSTS
QUEBEC
1981-1987

INDUSTRY	LABOUR PRODUCTIVITY		AVERAGE HOURLY WAGE		UNIT LABOUR COSTS	
	Index (1981=100) 1987	Average growth rate 1981-1987	Index (1981=100) 1987	Average growth rate 1981-1987	Index (1981=100) 1987	Average growth rate 1981-1987
		%		%		%
Food	103.1	0.5	138.9	5.6	134.7	5.1
Beverages	85.2	-2.6	132.6	4.8	155.7	7.7
Tobacco products	139.1	5.7	170.9	9.3	122.8	3.5
Rubber products	x	x	x	x	x	x
Plastics products	111.1	1.8	141.4	5.9	127.3	4.1
Leather	116.8	2.6	132.7	4.8	113.6	2.1
Primary textiles	109.5	1.5	142.8	6.1	130.4	4.5
Textile products	121.0	3.2	135.0	5.1	111.6	1.8
Clothing	104.8	0.8	116.1	2.5	110.8	1.7
Wood	138.4	5.6	134.6	5.1	97.3	-0.4
Furniture	104.0	0.7	124.2	3.7	119.4	3.0
Paper	115.7	2.5	144.8	6.4	125.2	3.8
Printing and publishing	100.3	0.05	150.0	7.0	149.6	6.9
Primary metals	156.0	7.7	157.3	7.8	100.8	0.1
Metal fabricating	114.8	2.3	136.6	5.3	119.1	2.9
Machinery	88.8	-2.0	124.2	3.7	139.9	5.8
Transportation equipment	107.4	1.2	127.5	4.1	118.7	2.9
Electrical products	109.7	1.6	145.2	6.4	132.4	4.8
Non-metallic mineral products	110.8	1.7	134.4	5.1	121.3	3.3
Petroleum products	115.3	2.4	128.7	4.3	111.7	1.9
Chemical products	118.7	2.9	137.0	5.4	115.4	2.4
Miscellaneous manufacturing	x	x	x	x	x	x
TOTAL	107.9	1.3	135.8	5.2	125.8	3.9

x: confidential.

SOURCES: Bureau de la statistique du Québec, "Statistiques principales des manufacturiers québécois: estimations 1987"; Direction de l'analyse économique et des relations internationales, MICT.

Virtually all of the increase in liabilities can be attributed to a few bankruptcies concentrated in three manufacturing industry groups. In metal fabricating, five bankruptcies occurred in March 1988 involving total liabilities of $13.5 million, followed by two more in June involving a total of $8.3 million in liabilities. Chemical industries saw Shawbec of Shawinigan go bankrupt in July (with liabilities involved totalling $12.7 million at that time). And three March bankruptcies in the miscellaneous manufacturing group involved liabilities totalling $13.2 million. These 11 bankruptcies accounted almost entirely for the 1987-1988 increase in total liabilities involved in bankruptcies of Québec manufacturing firms.



Over 80% of the credit for Canada's good performance in this area over the same reference period should go to Alberta's improved situation. Given the rather exceptional nature of the trend in Alberta, it would be painting a false picture to portray the Québec situation as being very different from the overall pattern seen in Canada as a whole. The 1988 data for Québec may be either a statistical accident or the first signs of a reversal of the continuous downward trend in bankruptcies begun in 1982. The 1989 results will show which of the two explanations is correct. Already, however, it can be assumed that a persisting rise in interest rates will likely confirm the conclusion that bankruptcies have indeed begun another upward trend.

BUSINESS BANKRUPTCIES IN THE MANUFACTURING SECTOR
QUEBEC, ONTARIO, CANADA
1985-1988

	1985	1986	1987	1988 (10 months)	1986/1985	1987/1986	1988/1987 (10 months)
NUMBER							
- Québec	249	217	219	209	-12.9	0.9	22.2
- Ontario	203	169	166	143	-16.7	-1.8	3.6
- Canada	694	644	622	541	-7.2	-3.4	5.0
- Qué./Can. (%)	35.9	33.7	35.2	38.6			
- Ont./Can. (%)	29.3	26.2	26.7	26.4			
LIABILITIES ($'000)							
- Québec	125 381	70 584	52 381	88 832	-43.7	-25.8	105.9
- Ontario	71 971	38 009	68 863	55 757	-47.2	81.2	11.7
- Canada	278 095	203 779	185 663	211 578	-26.7	-8.9	40.6
- Qué./Can. (%)	45.1	34.6	28.2	42.0			
- Ont./Can. (%)	25.9	18.7	37.1	26.4			

SOURCES: Consumer and Corporate Affairs Canada, Office of the Superintendent of Bankruptcy, "Insolvency Bulletin"; Direction de l'analyse économique et des relations internationales, MICT.

THE MANUFACTURING AND TRADE SECTORS IN QUÉBEC IN 1988

THE MANUFACTURING SECTOR: ANALYSIS BY INDUSTRY GROUP

DURABLE GOODS INDUSTRIES

WOOD

After some concerns early in the year that the healthy pace set in 1987 might not be maintained, 1988 will be remembered as a good year for the wood industry. Under the impetus of booming demand from wood-using industries (single-family housing construction especially), the capacity utilization rate in Canadian wood industries rose to 96% at the end of 1987, compared to 56% in 1982. Not since 1971 had capacity utilization in this sector reached such a high level. In Québec, it would be difficult to boost production any further, for lack of available additional timber supplies.

The industry chose to use the revenue generated by this vigorous demand to modernize its production facilities through a massive investment program. At $188 million, the industry's revised capital spending intentions for 1988 in Québec amounted to more than double the average level for the five preceding years. These outstanding results mirrored on a smaller scale the general pattern observed across Canada. Thus, Québec's estimated 17.5% share of the industry's total capital spending in Canada for the year 1988 remained at an average level, far below the peaks of 30% and even 40% registered over the past decade.

The euphoria of the first half of the year began to fade during the summer, as the construction boom slackened a bit. In constant dollar terms, the total value of manufacturers' shipments by the Québec wood industries for the June to September period in 1988 dropped 6.5% compared to year-earlier results. No such slump over the summer months had occurred since 1982.

High consumer debt levels, coupled with a comparatively high vacancy rate, point to a further contraction of the real estate market during the fall and winter months. Against that backdrop, the wood industry's excellent performance in early 1988 looks more like a reprieve than the attainment of a new cruising speed. The third-quarter plunge in earnings confirms that diagnosis.

FURNITURE

In 1988, the furniture and fixtures industry continued to move ahead at a brisk pace but, after the first quarter, failed to maintain the momentum of the previous year's boom. The disappointing results of the Montréal Furniture Market in June confirmed the downturn, contrasting with the optimism that reigned after the Toronto International Furniture Show in January. Demand softened as a result of the slowdown in the construction industry; higher interest rates discouraged furniture purchases by the already debt-burdened consumer; and the appreciation of the Canadian dollar hampered the industry's exports to the United States. Manufacturers' shipments by the Québec furniture industry showed a 3% gain, in constant dollar terms, for the first three quarters of 1988, compared to an 11% increase for the year 1987.

Capital spending in 1988 dropped back to its 1986 level of $26 million, as against $36 million in 1987. The Québec/Canada capital spending ratio followed a similar pattern. After varying within the 12% to 25% range for five years, this ratio jumped to 33% in 1986, to 42% in 1987, then fell back to 33% in 1988.

The slight slowdown in growth did not seem to harm the financial health of the furniture industries, which remained sound. Comparing the results for the first three quarters, basic earnings of the Canadian industry shot up by more than 11% from 1987 to 1988, registering an increase for the sixth consecutive year. In Québec, total liabilities involved in bankruptcies over the first nine months of 1988 plummeted 54% compared with the corresponding period in 1987.

As with the wood industry, however, a contraction in housing construction is expected to drastically alter the short-term prospects of furniture makers. What is more, in an industry dominated by small and medium-sized firms and burdened with over 20% idle production capacity for the past 15 years, fears related to the Free Trade Agreement will also be a factor, at least in the household furniture sector. Office furniture manufacturers, on the contrary, see the Agreement giving them an added advantage in their fast-expanding segment of the market.

PRIMARY METALS

The Québec primary metal industry saw the value of its shipments rise 20% over the first nine months of the year, owing mainly, however, to a corresponding increase in prices. In constant dollar terms, shipments by Québec manufacturers were up only 1% and even dropped 1% in the Canadian industry. New orders, also affected by high prices, showed a constant dollar value decline of 4%. Inventories as well plunged 14% in constant dollar terms. Profits, on the other hand, skyrocketed by 55% in the first half, outstripping the increase for the year 1987. Capacity utilization continued to climb, hitting the 81% mark in the second quarter of 1988.

This favourable market situation sparked major investments by this industry. Capital spending plans for Québec showed a 67% hike over 1987 to a level of $816 million, the equivalent of 45% of the industry total for Canada as a whole.

A number of investment projects for 1988 involved aluminum companies. Alcan started on a project at Laterrière entailing capital expenditures of $342 million spread over the period 1988-1990 and also carried out a $38-million modernization program at Jonquière. Reynolds as well decided to upgrade its facilities at Cap-de-la-Madeleine, to the tune of $30 million. The massive expansion project of Aluminerie de Bécancour Inc. will, however, likely be the predominant feature of the investment picture for this industry in the near future. The company plans to spend $550 million for a third potline with a capacity of 120 000 tonnes, which will boost total capacity to 360 000 tonnes.

Two major investment projects are under way in the steel industry. One is Sidbec-Dosco's $100-million modernization program launched in 1987 that is slated for completion in 1990. The other is a $154-million expansion project being carried out by QIT-Fer et Titane in Tracy.

In the magnesium sector, Norsk Hydro is building a $500-million plant in Bécancour. Coming on stream in 1989, this facility will create a brand new field of activities for the Québec primary metal industry. This operation will open up a vast range of industrial development possibilities in technology-intensive processing sub-sectors and spawn new R&D activities. Lavalin is currently conducting a feasibility study on recovering magnesium from asbestos tailings.

In the zinc field, Noranda has begun a major two-year modernization program for the CEZ plant in Valleyfield entailing expenditures of more than $120 million. The company will also be spending $40 million over a five-year period to modernize the CCR plant in Montréal-Est.

With this extensive capital spending program, the Québec primary metal industry will be in a good position to meet the strong demand for its products, in the aluminum and magnesium sectors particularly. The market prospects for steel are less promising, especially in the United States and in Japan where consumption is expected to drop 7.5% in 1989. In addition, the industry in Québec and in Canada as a whole may well be faced with an extension of the U.S. government's Voluntary Restraint Agreement, which is officially due to expire September 1, 1989.

METAL FABRICATING

With a 9% rise in the value of shipments for the first nine months of the year, the performance of the Québec metal fabricating industry in 1988 more than matched that of the manufacturing sector as a whole. This growth, while slightly better than the Canadian industry's, was only half that posted for the year 1987. The downturn in the residential construction market had a negative impact on the industry, as did the rise in the Canadian dollar exchange rate, which resulted in a retreat from certain U.S. markets. Still, the Canadian industry reduced its inventories of finished products. After hitting a peak in the first quarter of 1988, the capacity utilization rate declined somewhat in the second quarter, to 78%.

For the fifth consecutive year, the Québec metal fabricating industry reported an increase in capital spending. Investment intentions of $124 million for 1988, up 16% from 1987, were four times higher than the 1983 level of expenditures ($31 million). What makes Québec's capital spending performance even more impressive is the fact that it has outshone Canada's for the past two years. From 1982 to 1986, the Québec/Canada ratio in terms of capital expenditures in this industry hovered around a mediocre 15%. In 1987, it jumped to 23% and estimates show it reaching the 25% mark in 1988.

MACHINERY

It was a very good year for the Québec machinery industry. With an increase in shipments of 13% for the first nine months of 1988—9% for the year 1987—it outperformed both the Canadian machinery industry and the Québec manufacturing sector as a whole. The industry benefited greatly from the boom in non-residential investment expenditures, fuelled largely by extensive purchasing of production machinery and equipment. Canadian manufacturers' orders, on the rise since 1984, increased by 19% in 1987 and by 15% for the first nine months of 1988. The Canadian industry's stock-to-shipments ratio continued its downward trend begun in 1984 whereas the capacity utilization rate, which had levelled off at approximately 57% from 1984 to 1986, rose progressively to reach nearly 64% in the second quarter of 1988.

This favourable context triggered an investment boom in the Québec machinery industry. Following a 32% increase in 1987, capital spending in 1988 is expected to skyrocket by 89% to $174 million, which is 39% of the industry total for Canada, a record high for the 1980s. Several companies contributed to this explosion of capital expenditures, including a number of small firms. The main investment projects were those of Ingersoll-Rand of Sherbrooke ($15 million), Albany Canada of Cowansville ($13.3 million) and Bradley Bros. of Rouyn-Noranda ($5.1 million).

TRANSPORTATION EQUIPMENT

In 1988, the Québec transportation equipment industry posted a 20% gain in the value of its shipments, owing largely to the resumption of production operations at GM's Boisbriand plant following a temporary shutdown in 1987 for retooling. Over a longer time frame (1986-1988), the growth in shipments by the Québec industry was considerably weaker—barely 4%; Canada-wide results were not much better—a mere 6% increase. Orders, on the other hand, were up sharply in the Canadian industry in 1988 and the inventory-to-shipments ratio inched down a bit.

Canadian capacity utilization in this industry is on the rise, moving up from 60% in the third quarter of 1987 to 65% in the second quarter of 1988. Prior to that, the rate had taken a nosedive when major investments significantly boosted the industry's production capacity. In 1988, investment continued to climb, particularly in Québec, with a dramatic 79% increase. The Québec industry's investment plans for 1988 amounted to nearly $500 million, or 14% of the industry total for Canada as a whole.

Much of the future vitality of the Québec transportation equipment industry will come from the aerospace sector. Bell Helicopter's operations have reached the mass production stage; Pratt & Whitney has consolidated its position as the world's leading manufacturer of small and medium power gas turbines; Canadair is reaffirming its position in the commercial aviation field with its participation in the AIRBUS A 330-A 340 program; and Oerlikon Aerospace recently landed a $1-billion contract related to the U.S. military's air defence missile system.

In the automotive sector, the prospects for 1989 look bright. By the end of 1989, GM, whose Boisbriand auto plant is already operating at full capacity, will have completed its $450-million investment program, including a new paint shop. Hyundai's new $325-million plant in Bromont, scheduled to come on stream in January 1989, will add new production capacity. Other investments will boost auto parts production in 1989. Montupet is building a plant in Rivière-Beaudet to manufacture aluminum cylinder heads. In Magog, Hayes-Dana Inc. has invested $17 million in a new plant that just recently started up production of truck transmission shaft components.

The outlook is cloudier for the Québec railway rolling stock and shipbuilding sectors. Their immediate future hinges largely on a few major contract awards. Bombardier's completion of its New York subway car contract accounts for the slowdown in Québec's railway rolling stock industry in 1988.

ELECTRICAL AND ELECTRONIC PRODUCTS

The electrical and electronic products industry in Québec, in lock step with the industry throughout Canada, recorded a solid 16% growth in the value of its shipments for the first nine months of the year. Stimulated by the hefty increase in business investment, the electronic products and electrical industrial equipment sectors showed particular vitality. The non-industrial electrical products sub-sector benefited from a still-buoyant market in the residential construction field, with demand holding firm for both electrical construction equipment and consumer goods.

Activity in the industry was booming in 1988. The Canadian production capacity utilization rate approached the 100% mark and the stock-to-shipments ratio plunged to its lowest level since the mid-seventies. After several years of near-stagnation in its capital spending, in 1988 the Québec industry stepped up its investments significantly. The most ambitious investment programs were in the electronic products sector, which offers the best market growth prospects. IBM, with a $70-million investment in Bromont, far outranked all other spenders; it alone accounted for the industry group's entire capital spending increase in 1988. Matrox came second, with investments in the region of $15 million. Investment projects in the electrical products sector were numerous but more modest; they took into account both the industry's need to rationalize and modernize its operations and the expected fall-off in the residential construction market.

NON-METALLIC MINERAL PRODUCTS

The slowdown in the residential construction sector also had repercussions in the Québec non-metallic mineral products industry. Shipments showed a gain of only 3% for the first three quarters of 1988, compared to a healthy 15% hike in 1987. It was much the same story for the Canadian industry which, in addition, saw its inventory-to-shipments ratio jump 20% following a significant drop in 1987. The Canadian capacity utilization rate, which reached a peak in the first quarter of 1988, edged down in the second quarter, to 80%.

Capital spending in the non-metallic mineral products industry soared to an unprecedented level in 1988. Investment intentions for the year totalled $128 million, more than two and a half times higher than the annual average for the period 1981-1985. This situation is consistent with the progressive rise in capacity utilization over the past few years.

Many important investment projects were in progress or announced in 1988. Glaverbel, Multiver and Cover will begin construction in 1989 of a $140-million flat glass plant in the Québec City area. Miron started work on a $55-million cement plant project in Montréal and, at year-end, had nearly completed a $10-million cement crusher project in Gros-Cacouna. Four granite industry projects in Beebe involve investments totalling close to $2 million.

NON-DURABLE GOODS INDUSTRIES

FOOD AND BEVERAGES

The food industry in Québec is not keeping pace with the manufacturing sector as a whole; during the 1980s, the annual growth in its shipments has been averaging only 3.5%. Over the first nine months of 1988, shipments stagnated, mainly because of the drop in pork prices. At the Canadian level, too, food industry shipments made a poorer showing than in 1987, with a scant 3% increase in 1988. On the other hand, the Canadian industry's ratio of finished products inventories to shipments showed very little change in 1987 and 1988. The capacity utilization rate in Canadian food industries, after remaining in the neighbourhood of 81% since 1984, has been gradually moving up since the fourth quarter of 1987.

While the Québec beverage industry has been performing better than the food industry, the growth in the value of its shipments took a downturn in 1988. For the first nine months of the year, shipments were up only 3%, compared to average annual increases of 12% in 1986 and 1987. Over the past three years, the Québec beverage industry has followed roughly the same growth pattern as its Canadian counterpart. The overall slowdown in 1988 was reflected in a higher Canadian inventory-to-shipments ratio. After hovering around the 61% mark for a number of years, Canadian production capacity in this industry has been rising slightly since the third quarter of 1987.

In 1988, investments by the food and beverage sectors grew dramatically both in Québec and in Canada as a whole, i.e. by 41% and 28% respectively. These hefty increases in 1988 compensated somewhat for the below-average investment levels observed in this industry over the preceding years. From 1985 to 1987, capital spending by the industry in Québec rose on the average only 3% per year, compared to 13% for the Québec manufacturing sector as a whole. Corresponding statistics for the Canadian industry show an even greater difference in investment growth. Some of the impetus behind the catching-up movement of capital spending in 1988 came from breweries' investments prompted by fierce competition—reflected in a flood of new bottle designs—despite a stagnant market.

Among the major Montréal-area projects under way or announced in 1988: Molson's $13-million expenditure to relocate its bottle sorting centre in Boucherville; Boubli's $5-million investment to establish a condiment plant in Montréal; Wong Wing Food's $5.6-million modernization project in Montréal-Est. Elsewhere in Québec, Agrinove launched two projects in the Beauce region, at a total cost of $5 million.

TOBACCO PRODUCTS

Again in 1988, the Québec tobacco products industry experienced structural difficulties. Employment continued to decline while output stagnated. This situation was only the natural result of a domestic market on the wane because of antitobacco legislation, heightened public awareness of the health problems caused by smoking, and the dampening effect that successive tax increases have had on demand. Increased exports to international markets partly compensated for these difficulties. Notwithstanding this unfavourable context, the Canadian tobacco industry continued with its modernization program. Boosting its capital spending by 27%, the Québec industry retained a very substantial share of the Canadian industry total for 1988. In recent years, that share has been in the region of 80% whereas the historical average was closer to 50%. Production capacity in the Canadian tobacco industry remained largely underutilized in 1988, the utilization rate reaching 48% in the first half.

Despite the persisting negative trends in the industry, tobacco products manufacturers have managed to maintain respectable profit levels by passing the tax increases on to the consumer and by profiting from the decline in leaf tobacco prices over the period 1984-1987. During 1988, those prices regained some of their previous momentum but still remained well below what they were in 1984.

This industry can expect a stagnant domestic market over the next few years. Any expansion will have to come from more promising external markets.

RUBBER AND PLASTICS PRODUCTS

Overall, the Québec rubber and plastics products industry continued to perform well in 1988, though the main indicators revealed some loss of momentum. The massive investment program launched in 1986 began to lose its sparkle, with capital spending down 8% in 1988, but the sums involved were still considerably larger than expenditures prior to 1986.

This relatively good overall showing by the industry group conceals, however, two very different performances by the component industries.

The Québec plastics products industry capitalized on an expanding market situation and posted an appreciable 13% increase in its shipments for the first nine months of 1988, a growth rate comparable to that of its Canadian counterpart. Notwithstanding the substantial amounts invested in expansion projects, the capacity utilization rate continued to climb and reached 98%. The following investment projects should be noted: Copak in Boucherville ($7.6 million), Himont in Varennes ($26 million), I.P.L. in Saint-Damien-de-Bellechasse ($16 million) and Camoplast in Richmond and Rockland ($10 million in total).

Two indicators point to an upcoming slowdown in production in the plastics products industry: sharply rising inventory levels and the upward movement, though still gradual, of the stock-to-shipments ratio. Given the favourable market situation for plastics products, the production slowdown should not have too negative an impact on producers. Despite buoyant market conditions, business profits will likely be affected by the appreciable increase in synthetic resins prices since 1987. The longer-range outlook for this industry should be quite bright if producers are successful in their ongoing efforts to find new markets with high growth potential while maintaining a healthy investment level.

Despite some improvement over 1987, the performance of the rubber products industry in 1988 was still weak. Shipments by the Canadian industry dropped for the third consecutive year but the decline in 1988 was not as sharp. It would appear that the rationalization process, which took place mainly in the tire sector, has virtually been completed. The rubber industry was nonetheless faced with a sagging market, as shown by the capacity utilization rate which in 1988 continued to fall, to 75%.

The rubber products industry recorded an appreciable increase in the stock-to-shipments ratio, which is the signal of an approaching slowdown. Taking all the circumstances into account, the 1988 results should show that the industry was partly successful in checking the continuing fall in production. The outlook for the

coming year is somewhat uncertain inasmuch as the rubber products industry, whose health depends largely on automobile sales and industrial output, should feel the repercussions of the minor economic slowdown expected in 1989.

LEATHER

Following back-to-back decreases in 1986 and 1987, the value of shipments by the Québec leather industry, in constant dollar terms, rose marginally, by 1%, over the first nine months of 1988. In contrast, the Canadian industry registered a significant drop of 8% for the same period. Throughout the Canadian industry, shrinking inventories contributed to the decline in capacity utilization, though the rate settled at roughly the average for non-durable manufacturing. Capital expenditures planned by the Québec industry for 1988 plunged to near-1982 levels. The tanning business, however, did come up with some investment projects, the most ambitious one entailing a $6-million expenditure by an Eastern Québec tanner.

The industry is experiencing structural problems. Leather firms are having difficulty adjusting to increased international competition and their task was not made any easier when the remaining import quotas were lifted in 1988, in the last stage of a phasing-out process. A saturated Canadian market compounded the difficulties of the situation. Even imports were down, for the first time in years, and the trade balance continued to show a very large deficit.

The new Centre québécois de haute technologie de la chaussure should enable Québec shoe manufacturers to rapidly meet a specific demand by combining marketing know-how with high technology such as CAD/CAM systems.

TEXTILES

After recording appreciable gains in 1986 and 1987, textile industry shipments rose a modest 5% for Québec and 7% for Canada over the first nine months of 1988. In constant dollar terms, these figures fall back to 1% and 2% respectively. This slower growth was accompanied by higher inventory levels and a slight dip in Canadian capacity utilization, which nonetheless remained above 95%. Investments, however, shot up by 20% in Québec, posting the highest growth rate for the past four years.

Several investments in conventional and technological textiles were made in the Drummondville area, including those by Dominion Textile in denim ($30 million), Textiles Monterey in fabrics ($10 million), Dionne Textiles in spun yarns ($3 million) and Niagara Lockport and Armken in technological textiles (over $10 million). Riding the crest of the construction boom, Peerless Carpet virtually completed expansion of its Acton Vale plant. The investments of Scapa Canada Inc. ($6 million in Joliette) and Albany International Canada Inc. ($10 million in Cowansville), both specializing in textile supplies for paper equipment, are good examples of specialization in markets which are less sensitive to competition.

The medium- and long-term outlook for the industry continues to be uncertain. The trade balance deficit remained high in 1988, Québec's share of the Canadian industry's capital spending has been dropping for the past ten years and some reservations have been expressed about the federal program to remit customs duties on fabrics announced early in the year and partially implemented.

CLOTHING

For the third consecutive year, growth in Canadian and Québec clothing industry shipments faltered. In Québec, an increase of only 2% was posted for the first nine months of 1988. In constant dollars, Québec shipments were down 1%. Canadian inventories grew while production capacity utilization dipped slightly, although maintaining a rate above 95%. This situation influenced industry investment, which declined 15% both in Québec and Canada. The largest Québec investment was that of Peerless Clothing at $10 million, with most others being smaller projects.

The trade balance deficit remained high, but bilateral quotas negotiated under the Multifibre Agreement will provide the clothing industry with more stability until 1992. In addition, the Québec clothing industry has been showing some vitality in recent years. Québec's share of Canadian capital spending by this industry stood at only 39% from 1978 to 1982, but rose and held at roughly 50% from 1983 to 1988.

PAPER

The pulp and paper industries continued to prosper in 1988. Earnings for this group are expected to be up for the sixth consecutive year, with a forecast increase of 28% in Canada in 1988.

In constant dollar terms, the value of Québec pulp and paper industry shipments has been rising since 1982. Companies have taken advantage of favourable circumstances to reduce their inventories of finished products. Canadian capacity utilization, which has ranged from 90% to 94% since early 1987, prompted strong growth in capital spending. For the third consecutive year, the industry group in Québec forecast capital spending in excess of $1 billion.

The list of capital spending projects in Québec valued at over $100 million announced or in progress in 1988 is long: Domtar's large-scale fine paper plant in Windsor ($800 million from 1985 to 1990); Kruger's project for its Trois-Rivières plant (newsprint, $328 million); the chemical-thermomechanical bleached pulp plant in Matane (Donohue, $287 million); a similar-sized Consolidated-Bathurst project at Grand-Mère, where new mechanical pulp equipment for special paper will boost annual capacity by 183 thousand tonnes; the Tembec cardboard plant in Témiscamingue ($270 million); Donohue's new machinery in Clermont ($170 million); Reed's proposed thermomechanical pulp plant ($156 million in Québec City); completion of the $100-million Cascades plant at Port-Cartier.

The strong surge in pulp and paper industry investment during 1988 surprised observers. The slight drop (1.3%) in the province's share of the Canadian total in 1988 indicates, however, that capital spending in Québec is winding down. In the rest of Canada, capital spending for pulp and paper manufacturing doubled from 1987 to 1988. The Québec/Canada ratio, which stood at 52% two years ago, fell to 45% in 1987 and, according to estimates, should tumble to 29% in 1988.

Some readers will recall the over-capacity crisis, particularly in newsprint, which seriously crippled the industry in 1981-1982 after a similar investment rush. While the demand for paper is highly sensitive to the state of the world economy, another factor often cited is the international competition from new producers, based on the high yield of eucalyptus. A structural trend to an ever-increasing world demand for paper has nonetheless emerged. The high level of capital spending on manufacturing facilities reflects the optimism felt by most Québec and Canadian companies. In late 1988, many analysts were expecting a rise in North American pulp prices within a very short time.

PRINTING AND PUBLISHING

The Québec printing and publishing industry stepped up its growth still further in 1988, with shipments increasing 12.0% during the first nine months of the year, which compares favourably with the Canadian industry's rate. Strong domestic demand was responsible for this sustained growth. Capital spending projects by the Québec industry, which experienced a series of ups and downs in recent years, bounced back with a 27.0% increase in 1988. The capacity utilization rate reached 97%, up from 1987's 94%. Canadian companies drew on their inventories to meet strong product demand.

The short-term outlook remains favourable for this industry. Although an overall economic slowdown may have repercussions on the final demand for printed matter, the industry should continue to benefit from major trends which are favourable for its markets. For example, the spectacular mushrooming of the market for advertising inserts should continue. Commercial printers also appear relatively unaffected by developments in electronic publishing.

REFINED PETROLEUM AND COAL PRODUCTS

The Québec refined petroleum products industry reported a 5% gain in production volume (first seven months of 1988) for the second consecutive year. The hard times of the first half of the 1980s, when four Montréal refineries (Esso, BP, Texaco and Gulf) closed, are now in the past. The industry's recovery is mainly due to improved market conditions following the collapse of oil prices; its market is primarily local. Québec's international and interprovincial trade was somewhat sluggish in 1988, but did not affect the balance which had been established between provincial production and the Québec market.

The Québec industry significantly beefed up investments in 1986 and 1987, but reined in capital spending somewhat in 1988, to an estimated level of some $112 million. The Canadian industry was more dynamic in this area. Improved production capacity

utilization, a positive outlook for demand and the new, earlier, January 1, 1990 deadline for the compulsory use of unleaded gasoline in automobiles should encourage the industry to step up its capital spending. The same is true of the advantageous tax measures for petroleum refining companies announced in Québec's April 1988 budget, namely the gradual elimination over five years of the special 1% tax on capital and the related tax exemption program. In this regard, Ultramar recently reviewed and expanded its investment program, earmarking $100 million to increase its refining capacity and operations in St-Romuald.

CHEMICAL PRODUCTS

The chemical products industry performed well, with shipments up 12% for the first nine months of 1988. This growth rate is comparable to that of the Canadian chemical industry and better than that of the Québec manufacturing sector as a whole. However, industrial prices took their highest jump in five years — the major reason for the substantial growth in shipments, which amounted to only 3% in constant dollar terms.

The ratio of inventories to shipments continued the downward trend begun three years ago. Canadian capacity utilization, which had been climbing since 1986, levelled out at roughly 71% in the first quarter of 1987 and has remained at that level since then.

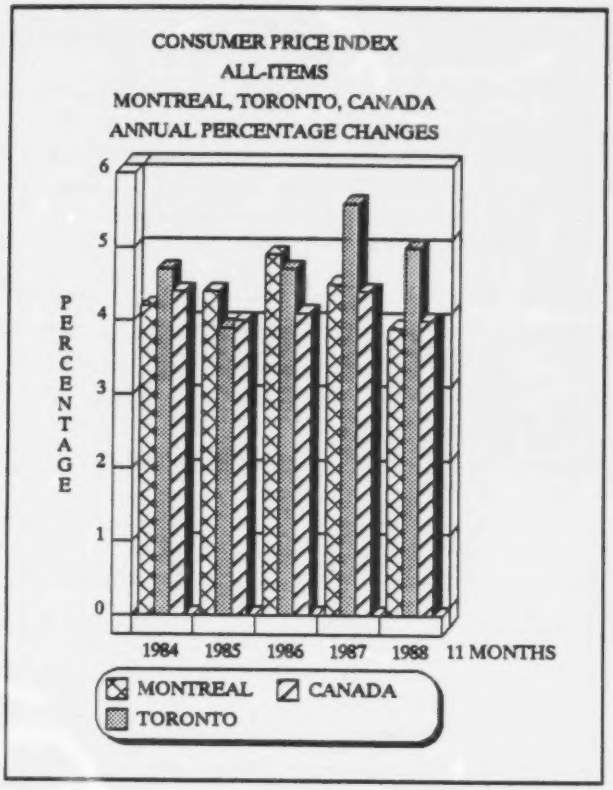
These favourable conditions prompted the Québec industry to actively pursue its capital spending program, which totalled some $400 million for the third consecutive year and represented one-third of Canadian chemical industry investments.

Several large capital spending projects were in progress or announced in 1988. For the inorganic chemistry sector, they included the Albright & Wilson project to modernize the company's Buckingham chlorate plant ($40 million) and Canox's plans to build a hydrogen liquefaction plant in Magog ($36 million). Investments in the organic chemistry sector included Union Carbide's project to modernize and expand its ethylene glycol and ethylene oxides plant in Montréal-Est at a cost of $30 million. As well, Kemtec is investing $120 million in its Montréal facilities to add cumene and para-xylene to its product line.

In the pharmaceutical sector, Bill C-22 respecting drug patent protection came into effect and opened the door to a wide range of projects, including those of Merck Frosst ($205 million), Squibb ($65 million), Ciba-Geigy ($100 million) and Boehringer Ingelheim ($73 million). These projects are expected to run over several years and are aimed at the technological development of products. Completed largely within Québec, these projects will give added impetus to the development of the Québec chemical products industry over the coming years.

THE MANUFACTURING AND TRADE SECTORS IN QUÉBEC IN 1988

THE TRADE SECTOR



In 1988, Québec's trade sector again performed well, although growth began flagging. Retail sales grew more slowly than in recent years, particularly in the durable goods sector; residential construction activity also declined, but remained at a surprisingly strong level. Employment in the retail and wholesale trade sectors stagnated. Québec enjoyed its lowest level of inflation in consumer prices in several years.

Increasing consumer debt and the low savings rate will signal belt-tightening for consumers in their personal spending budgets. Policies favouring higher interest rates could contribute to the need for restraint.

CONSUMER PRICES

The all-items consumer price index for the first 11 months of 1988 rose 3.9% in Montréal and 3.6% in Québec City. These are highly satisfactory results since they denote a drop in inflation for the third consecutive year. In 1987, the average inflation rate stood at 4.5% in Montréal and 3.9% in Québec City. The overall Canadian index advanced 4% in 1988, compared to 4.4% in 1987.

CONSUMER PRICE INDEX
ANNUAL CHANGE
1986-1988

	Montréal			Québec		
	1986	1987	1988 (11 months)	1986	1987	1988 (11 months)
ALL-ITEMS	4.9	4.5	3.9	4.9	3.9	3.6
Food	6.7	5.2	3.0	6.9	4.4	3.0
All-items excluding food	4.4	4.3	4.2	4.4	3.7	3.7
Housing	3.1	4.3	5.0	3.3	3.0	3.9
Clothing	3.2	4.6	4.4	3.0	4.3	5.0
Transportation	3.1	3.2	1.7	2.7	3.3	1.4
Health and personal care	4.8	5.4	4.0	4.8	5.3	4.2
Recreation, reading and education	4.4	5.3	4.5	4.7	4.8	4.3
Tobacco products and alcoholic beverages	16.0	4.9	4.6	14.8	5.4	4.8
Energy	-7.8	3.6	2.5	-5.4	2.5	1.6
All-items excluding food and energy	5.9	4.3	4.4	5.6	3.8	3.9
Durable goods	5.6	3.3	3.5	4.5	3.2	3.4
Semi-durable goods	3.0	4.5	4.8	3.0	4.3	4.9
Non-durable goods	4.5	4.4	3.0	5.3	4.1	3.0
Services	5.4	4.8	4.6	5.1	3.8	3.7

SOURCES: Statistics Canada, Cat. 62-010 and CANSIM; Direction de l'analyse économique et des relations internationales, MICT.

The city with the highest inflation rate in 1988 was Toronto, with an average hike of 5% after 11 months.

The Montréal consumer price index was driven up by the increased cost of housing (5.0%), tobacco products and alcoholic beverages (4.6%), recreation, reading and education (4.5%) and clothing (4.4%). Slight increases in transportation (1.7%), energy (2.5%) and food (3.0%) prices helped keep inflation below that of other years. The strongest inflationary pressure came from semi-durable goods (4.8%) and services (4.6%); price increases were more moderate for durable goods (3.5%) and non-durable goods (3.0%).

In Québec City, the inflation rate in 1988 was kept down by minor price gains for food (3.0%), transportation (1.4%) and energy (1.6%). Stronger increases were recorded in the prices of clothing (5.0%), tobacco products and alcoholic beverages (4.8%) and housing (3.9%). At a more general level, the strongest inflationary pressure came from semi-durable goods (4.9%) and, to a lesser degree, services (3.7%). A low 3.0% inflation rate for non-durable goods and 3.4% for durable goods helped the Québec City region turn in an excellent overall performance.

The 1988 inflation rate was kept at bay mainly by more slowly rising food and energy prices. Over the winter, however, inflationary pressures should intensify for North America as a whole. Crude oil prices, which in 1988 fell to their lowest level in two years, are expected to recover in 1989. Electricity prices should keep pace with the inflation rate. The severe drought experienced both in Canada and the United States will likely lead to higher prices for agricultural products. The 30% drop in the North American grain harvest is expected to be felt by the consumer in higher food prices in the coming months. This will coincide with increased prices on oil markets.

Through its policy of increasing interest rates, the Bank of Canada intends to curb the mounting upward pressure on wages and thereby maintain the strength of the Canadian dollar. In Québec, collective agreements signed in the second quarter of 1988 called for average annual wage increases of 4.8%, compared to 3.3% in 1987. 1989 prices are expected to be nudged up still further by the development of production bottlenecks and wage disputes on the labour market. This trend has already begun in industrial prices and should show up in consumer prices within two quarters.

The combination of these factors means that the inflation rate for consumer prices may exceed 5% in 1989.

SALES

(a) Wholesale Trade

For the first three quarters of 1988, combined wholesale merchants' sales rose 12.6% compared to the corresponding period in 1987. Unlike Canada as a whole, and especially Ontario, Québec posted an increase of nearly three percentage points over the preceding year's growth, displaying the strongest growth of Canada's five economic regions.

Canadian wholesale merchants' sales of non-farm machinery, equipment and supplies were the main driving force behind increased wholesale trade, recording an 18.2% growth rate. Wholesale merchants' sales of metal, hardware, plumbing and heating equipment climbed 16.5%, and those of lumber and building materials 7.6%. Sales of farm machinery, equipment and supplies and of motor vehicles and accessories continued to slump, posting respective growth rates of -6.6% and 1.4%. Wholesale merchants' sales of food were up barely 5.0% over 1987.

Québec wholesalers' inventory levels rose faster than they did in 1987. For the first nine months of 1988, they posted a 14.1% increase, compared to 11.7% for all of 1987. In Ontario, growth was even more pronounced, with levels running 9.6% higher, compared to a 4.4% increase for the year 1987. The trend to higher inventory levels was seen across Canada, with a rate of increase of 9.5% (6.1% in 1987). Inventory levels were way up across Canada, with the exception of British Columbia. Québec, however, recorded the highest rate of increase.

Despite this trend, Québec's stocks/sales ratio dropped to 1.30 in late August 1988, down from the 1.54 ratio in late December 1987. A substantial jump in sales led to this reduction. The same phenomenon was recorded in Ontario and Canada where respective ratios declined from 1.50 and 1.58 in late 1987 to 1.33 and 1.36 in August 1988. For the fourth consecutive year, this indicator revealed faster inventory turnover, supporting wholesalers' confidence in continued strong demand.

(b) Retail Trade

Retail sales rung in at $30 450 million for the first nine months of 1988, for an 8.1% increase over the same period in 1987. Although substantial, this upsurge nonetheless reflected the weakest growth rate in five years. In real terms, this represented a 4% rise (compared to 6.9% a year earlier). Total retail sales for 1988 should hit $41 500 million, resulting in a 6.8% advance.

For the sixth consecutive year, the best growth in sales in 1988 was exhibited by durable goods, posting a 10.2% gain for the first nine months of 1988 (compared to a 17.2% increase for the corresponding period in 1987). The growth in 1988 was the weakest since the 1982 recession. This slowdown was largely the result of significantly fewer sales of televisions, radios and appliances, which dropped 7.4%, and, to a lesser degree, jewellery store sales which managed only a 6.6% increase. The strongest sales growth in the durable goods category was recorded by household appliance stores. In the past two years, housing starts have shot up, explaining this phenomenon. The majority of durable goods sales, however, were composed of new and used automobile sales, with growth rates of 11% and 14.4% respectively.

Semi-durable goods also moved ahead 8.1% for the first nine months of 1988. Since 1982, only one year's showing had been better. The substantial sales increases registered by book and stationery stores (27.7%), sporting goods and accessories stores (19.5%), general stores (14.7%) and hardware stores (13.4%) contrasted strikingly with the poor gains posted by clothing stores (2% to 7%) and family shoe stores (3.9%). Department stores experienced a marked slowdown in sales for the second consecutive year. Fiercer competition may

SALES AND STOCKS (P)
WHOLESALE TRADE
QUEBEC, ONTARIO, CANADA
1985-1988

		1985/1984	1986/1985	1987/1986	1988/1987 (9 months)
		(percentage change)			
QUEBEC	- Total sales	9.3	8.4	10.4	12.6
	- Stocks	5.8	11.0	11.7	14.1
	- Stocks/sales	1.82	1.62	1.54	1.30
ONTARIO	- Total sales	14.2	16.4	14.7	9.6
	- Stocks	7.5	9.7	4.4	9.6
	- Stocks/sales	1.82	1.60	1.50	1.33
CANADA	- Total sales	12.3	11.5	13.8	10.1
	- Stocks	3.8	7.2	6.1	9.5
	- Stocks/sales	1.91	1.60	1.58	1.36
	- Sales, by major trade groups:				
	- Food	7.6	2.3	11.7	5.0
	- Tobacco, drugs and toilet preparations	17.3	9.3	6.7	2.9
	- Apparel, dry goods, furniture and general merchandise	8.0	11.4	13.5	5.4
	- Motor vehicles and accessories	21.1	14.6	5.7	1.4
	- Farm machinery, equipment and supplies	15.1	18.1	0.2	-6.6
	- Other machinery, equipment and supplies (1)	16.7	14.9	23.3	18.2
	- Metal, hardware, plumbing and heating equipment	16.6	5.3	14.3	16.5
	- Lumber and building materials	3.2	24.7	15.7	7.6
	- Other wholesalers (2)	7.7	9.5	13.2	14.8

(1) Includes: Electrical machinery, equipment and supplies, n.e.s.
(2) Includes: Farm products (excluding grain); paper and paper products; scrap and waste materials; wholesalers, n.e.s.
(P) Preliminary cumulated data.

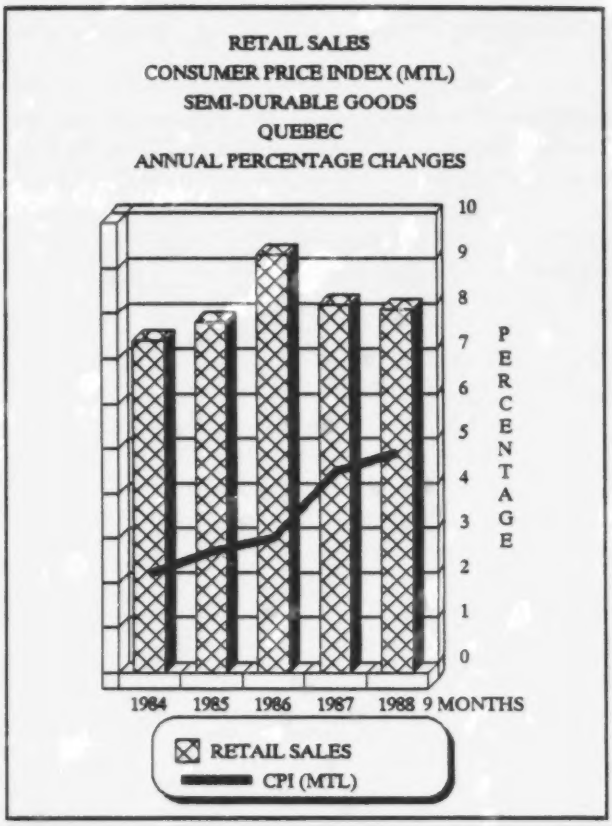
SOURCE: Statistics Canada, Cat. 63-008.

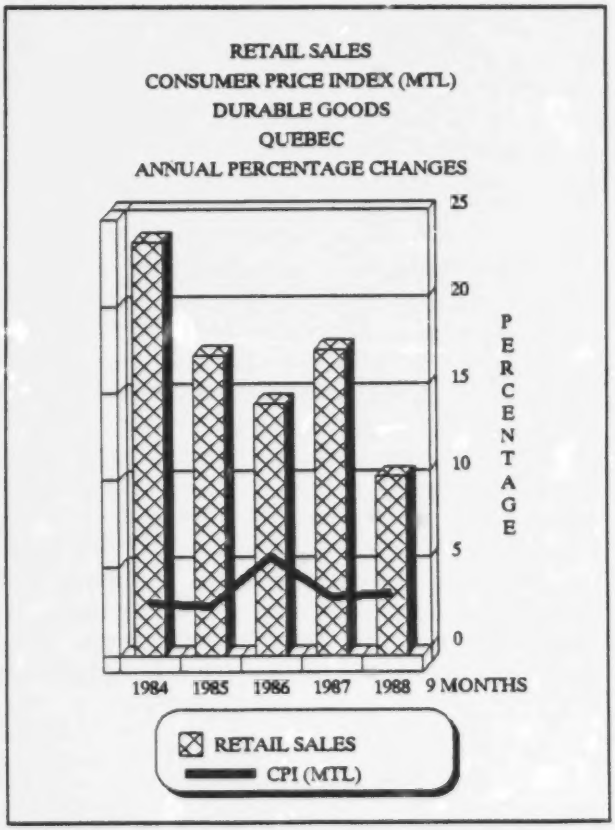
explain the recent weak performances of this kind of business, at least to some degree.

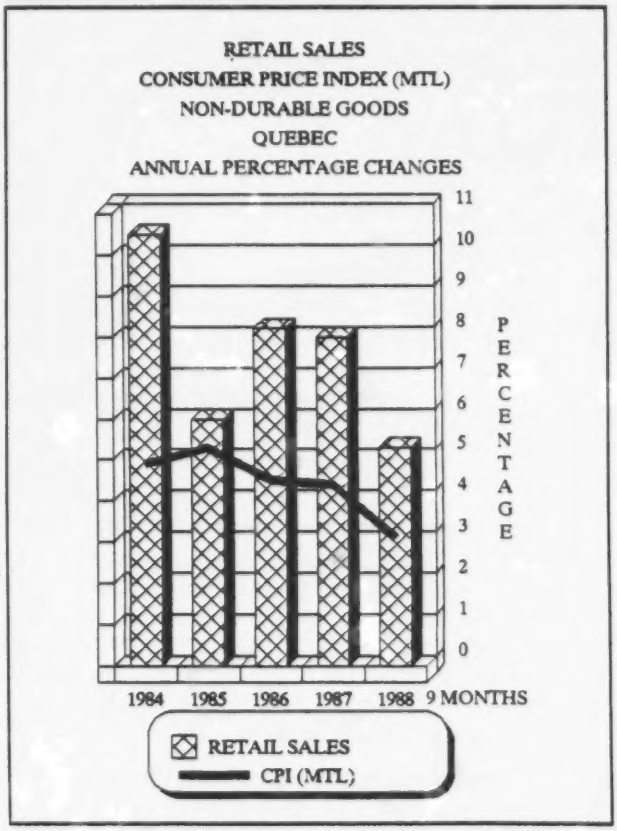
The growth rate of non-durable goods sales — a mere 5.3% — lagged behind all others. Known for its habitual relative stability, this sales sector displayed distinct signs of a slump in 1988. This sluggishness can be traced mainly to the sales performance of florists (-4.6%, their worst showing in six years) and variety stores (-4.0% for the second consecutive year, the largest drop since the early 1980s). Combination store (groceries and meat) sales edged up by a scant 2.2%.

Sales by retail businesses in the service sector increased by 6.7% — half the rate posted in 1987. Garages, with a strong growth in sales (8.1%), enabled this sector to maintain a relatively healthy growth rate. After recording a hefty hike of over 17% in 1987, service station sales went up only 6.4% in 1988.

Following sustained growth since the 1982 recession, retail sales for 1988 will decline somewhat. Although all three broad trade categories will be affected, durable goods, the usual barometer of general economic trends, will be hardest hit. Since supplies of durable goods have







been renewed (consumers are driving newer cars) and as the impact of the record number of housing starts in 1987 gradually fades, sales growth for 1988 will moderate.

If this trend and the current economic situation persist (restrictive monetary policy, consumer debt, income stability), there should be a move among consumers in 1989 toward healthier personal finances, with a harder look at personal spending. Québec's retail sales in 1989 should post an increase of nearly 7% and total approximately $44.4 billion.

(c) Financing of Personal Consumer Spending

The first half of 1988 saw personal disposable income rise by 4.7%, compared to 6.3% for the same period in

RETAIL SALES
QUEBEC
1985-1988

KIND OF BUSINESS	1985	1986	1987	1988 (9 months)	1986/1985	1987/1986	1988/1987 (9 months)
	(millions of dollars)				(percentage change)		
DURABLE GOODS	8 015.5	9 171.6	10 774.8	8 955.9	14.4	17.5	10.2
Motor vehicle dealers	5 981.5	6 845.9	8 115.8	6 904.8	14.5	18.5	11.0
Used car dealers	251.6	308.5	360.1	317.3	22.6	16.7	14.4
Automotive parts and accessories stores	578.5	619.5	692.1	529.5	7.1	11.7	10.5
Household furniture stores	526.1	521.3	620.2	511.0	-0.9	19.0	12.7
Household appliance stores	125.0	107.0	139.1	119.8	-14.4	30.0	22.0
Furniture, TV, radio and appliance stores	397.9	590.5	662.3	455.9	48.4	12.2	-7.4
Jewellery stores	155.0	178.9	185.3	117.5	15.4	3.6	6.6
SEMI-DURABLE GOODS	6 592.3	7 202.7	7 795.0	5 766.9	9.3	8.2	8.1
Department stores	2 273.3	2 403.0	2 459.6	1 670.6	5.7	2.4	3.1
General merchandise stores	289.2	299.6	341.6	234.2	3.6	14.0	5.6
General stores	249.8	295.7	319.1	265.9	18.4	7.9	14.7
Men's clothing stores	343.5	373.2	400.5	266.7	8.6	7.3	2.8
Women's clothing stores	732.4	808.9	883.3	651.9	10.5	9.2	4.5
Family clothing stores	658.3	712.8	750.7	550.9	8.3	5.3	7.4
Specialty shoe stores	66.0	80.0	79.3	62.0	21.2	-0.9	11.3
Family shoe stores	402.0	434.5	458.2	318.3	8.1	5.5	3.9
Hardware stores	411.6	509.0	606.7	504.1	23.7	19.2	13.4
Book and stationery stores	189.3	201.5	223.3	186.4	6.5	10.8	27.7
Sporting goods and accessories stores	525.7	596.4	696.1	624.3	13.4	16.7	19.5
Personal accessories stores	451.2	488.2	576.5	431.6	8.2	18.1	10.4
NON-DURABLE GOODS	10 428.5	11 283.5	12 190.2	9 400.1	8.2	8.0	5.3
Combination stores (groceries and meat)	5 980.8	6 188.5	6 440.9	4 831.2	3.5	4.1	2.2
Grocery, confectionery and sundries stores	1 944.6	2 331.1	2 777.1	2 263.7	19.9	19.1	11.2
All other food stores	845.9	987.2	1 093.7	857.8	16.7	10.8	5.4
Variety stores	348.5	371.9	357.0	235.1	6.7	-4.0	-4.0
Pharmacies	1 200.3	1 282.1	1 382.1	1 111.6	6.8	7.8	11.1
Florists	108.4	122.7	139.3	100.7	13.2	13.6	-4.6
SERVICES	3 777.3	3 605.3	4 223.4	3 331.3	-4.6	17.1	6.7
Service stations	3 175.5	2 992.4	3 522.9	2 780.0	-5.8	17.7	6.4
Garages	601.8	612.9	700.5	551.2	1.8	14.3	8.1
ALL OTHER STORES	2 968.7	3 330.1	3 882.4	2 995.8	12.2	16.6	13.0
TOTAL RETAIL SALES	31 782.3	34 593.2	38 865.8	30 449.9	8.8	12.4	8.1

SOURCES: Statistics Canada, Cat. 63-005;
Direction de l'analyse économique et des relations internationales, MICT.

1987. In real terms (adjusted by the consumer price index), this represented advances of 1.6% in 1987 and 0.7% in 1988 for these same periods.

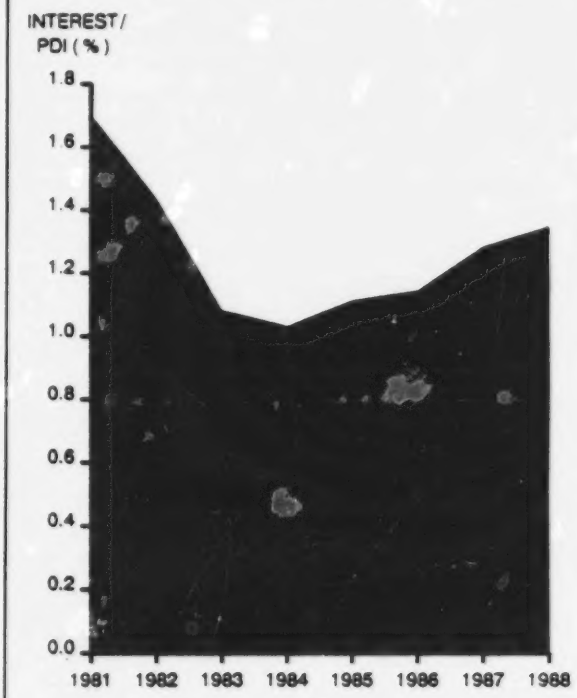
Consumer spending, on the other hand, climbed 8% in the first half of 1988, for a real rate of 2.9%. To help finance their spending, Quebecers dipped into their savings and increased their debt burden. Personal savings were down again for the third consecutive year, by nearly 20%. Since 1982, Quebecers' savings have steadily declined, falling from a record 18.7% of personal disposable income to a meagre 6.2%. Not since the late 1960s has this rate been so low.

The upward trend in the total household debt ratio can be attributed to consumer credit, which continued to grow by leaps and bounds. In the first quarter of 1988, it jumped by 16%, compared to 17.8% for the corresponding period in 1987. Greater debt was, however, even more directly the result of the rise in residential mortgage loans. These trends, first noted in 1982, have widened the gap between credit and savings levels even further.

The high debt level (54% of personal disposable income in 1988 compared to 33% in 1982), coupled with rising interest rates, clearly resulted in a heavier debt burden for households. The financial position of consumers grew shakier, as witnessed by the higher number of personal bankruptcies.

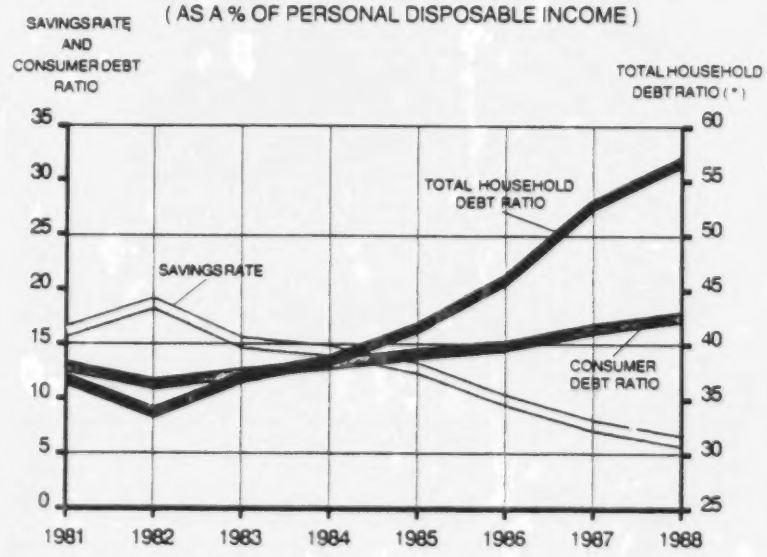
Consumer purchasing intentions, published by the Conference Board of Canada, were down sharply (-22%) in the third quarter of 1988 and clearly reflected consumer uncertainty. Compared to year-earlier results, this was the fourth quarterly indication of a loss of consumer confidence in the growth of the economy.

INTEREST PAYMENTS ON CONSUMER DEBT
(AS A % OF PERSONAL DISPOSABLE INCOME)



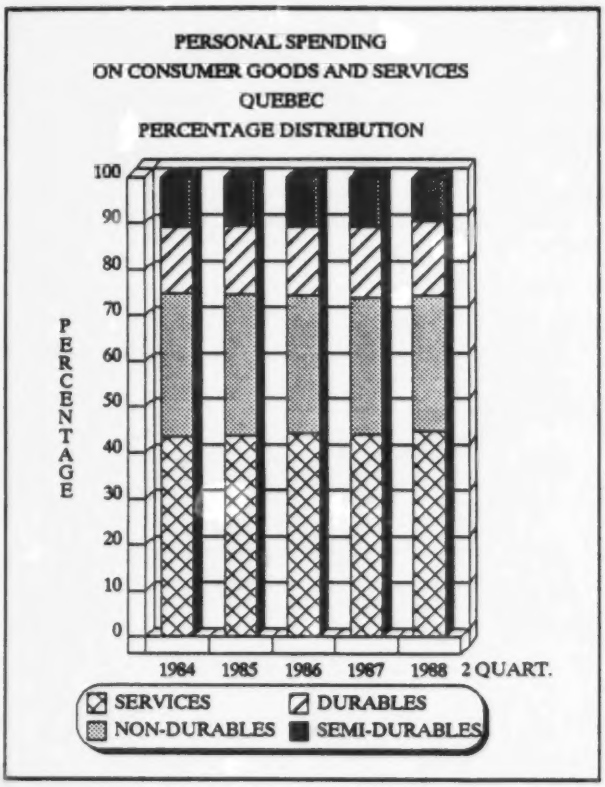
SOURCES : BSQ, MICT.

SAVINGS RATE AND DEBT RATIO IN QUEBEC
(AS A % OF PERSONAL DISPOSABLE INCOME)



(*) TOTAL HOUSEHOLD DEBT INCLUDES RESIDENTIAL MORTAGE LOANS AND CONSUMER LOANS.

SOURCES BSQ, MICT



Consumers can therefore be expected to rein in spending in 1989, particularly on new automobile purchases. Higher interest rates could have serious crippling effects on the consumer's financial position, leading only to deeper debt for households that cannot afford to continue absorbing additions to their debt burden. Greater negotiated wage increases (estimated at 4.8% in 1989-1990 compared to 3.3% in 1987-1988) along with lower federal and provincial marginal tax rates and higher employment will, however, enable consumers to avoid drastic spending cuts.

UTILIZATION OF HUMAN RESOURCES

The labour situation in the Québec trade sector can be summed up with the threesome: no new jobs, good wage increases and a sharp drop in person-days lost in labour disputes.

(a) Employment

Growth in employment in Québec's trade sector took a downturn in 1987. In 1988, the sector actually lost a small number of jobs (1 400) resulting in a negative rate (-0.3%). Employment foundered in both retail and wholesale trade. The substitution of part-time positions for full-time jobs made the real loss even more significant.

PERSONAL CONSUMER SPENDING
QUEBEC
1985-1988

	1985	1986	1987	1988 (6 months)	1986/1985	1987/1986	1988/1987 (6 months)
	(millions of dollars)				(percentage change)		
Personal spending on consumer goods and services	66 864	72 539	79 223	40 907	8.5	9.2	7.0
GOODS	37 615	40 473	44 249	22 562	7.6	9.3	8.0
· Durable goods	9 891	10 900	12 312	6 647	10.2	13.0	10.9
· Semi-durable goods	7 125	7 759	8 395	3 861	8.9	8.2	6.8
· Non-durable goods	20 599	21 814	23 542	12 054	5.9	7.9	6.8
SERVICES	29 249	32 066	34 974	18 345	9.6	9.1	5.8

SOURCES: Bureau de la statistique du Québec, "Comptes économiques du Québec";
Direction de l'analyse économique et des relations internationales, MICT.

SOURCES OF FINANCING
CONSUMER SPENDING
QUEBEC
1985-1988

	1985	1986	1987	1988 (6 months)	1986/1985	1987/1986	1988/1987 (6 months)
	(millions of dollars)				(percentage change)		
PERSONAL DISPOSABLE INCOME	77 857	81 759	87 112	44 341	5.0	6.5	4.7
CONSUMER CREDIT	10 941	12 085	14 326	15 541 (1)	10.5	18.5	16.0
PERSONAL SAVINGS	9 982	8 135	6 615	2 755	-18.5	-18.7	-21.3

(1) Annualized quarterly data.

SOURCES: Bureau de la statistique du Québec, "Comptes économiques du Québec";
Direction de l'analyse économique et des relations internationales, MICT.

LEADING INDICATORS
CONSUMER SPENDING
QUEBEC
1985-1988

		UNIT	1985	1986	1987	1988	1986/1985	1987/1986	1988/1987
							(percentage change)		
Savings rate		%	12.8	9.9	7.6	6.2 (1)	...	...	...
Total household debt ratio (6)		%	41.5	45.9	52.8	56.7 (1)	...	...	...
Housing starts		Number	48 031	60 348	74 179	53 792 (2)	25.6	22.9	-1.9
Personal bankruptcies		Number	5 684	6 497	7 730	7 942 (3)	14.3	19.0	23.8
· Liabilities		$'000	218 371	225 087	148 867	n.a.	3.1	-33.9	...
Index of consumer purchasing intentions	I	1961=100	110.32	112.18	151.64	139.22	1.7	35.2	-8.2 (4)
	II		92.64	134.74	146.30	142.28	45.4	8.6	-2.7
	III		126.03	130.18	151.09	117.44	3.3	16.1	-22.3
	IV		116.52	141.01	128.60	n.a.	21.0	-8.8	...
Bank Rate	I	%	11.18	10.44	7.14	8.78	...	...	...
	II		9.57	8.84	8.59	9.44	...	...	...
	III		9.31	8.63	9.57	10.58	...	...	...
	IV		9.49	8.49	8.66	11.20 (5)	...	...	...

n.a.: not available.
(1) 6 months. (2) 9 months. (3) 10 months.
(4) Change compared to the same quarter of the preceding year.
(5) Rate for the first week of December.
(6) Total household debt = consumer loans + residential mortgage loans.

SOURCES: Bureau de la statistique du Québec; Statistics Canada; CHMC;
"Bank of Canada Review"; Consumer and Corporate Affairs Canada;
Direction de l'analyse économique et des relations internationales, MICT.

EMPLOYMENT IN THE TRADE SECTOR
QUEBEC
1985-1988

	1985	1986	1987	1988 (11 months)	1986/1985	1987/1986	1988/1987 (11 months)
		(thousands)			(percentage change)		
WHOLESALE TRADE							
EMPLOYMENT							
Total	127.8	139.0	130.0	129.6	8.8	-6.5	-0.6
Men	94.8	104.3	99.7	95.6	10.0	-4.4	-5.2
Women	33.0	34.8	30.4	34.0	5.5	-12.6	14.9
FULL-TIME EMPLOYMENT							
Total	118.8	130.8	122.1	122.1	10.1	-6.7	-0.4
Men	91.5	101.2	96.1	91.8	10.6	-5.0	-5.7
Women	27.3	29.6	26.0	30.3	8.4	-12.2	19.8
PART-TIME EMPLOYMENT							
Total	9.1	8.2	8.3	7.6	-9.9	1.2	-6.2
Men	3.3	3.2	3.8	3.9	-3.0	18.7	5.4
Women	5.8	5.0	4.4	3.7	-13.8	-12.0	-15.9
RETAIL TRADE							
EMPLOYMENT							
Total	363.4	375.9	391.3	389.7	3.4	4.1	-0.2
Men	200.3	215.7	210.8	212.2	7.7	-2.3	0.8
Women	163.2	160.3	180.6	177.8	-1.8	12.7	-1.1
FULL-TIME EMPLOYMENT							
Total	275.8	287.8	300.6	294.5	4.4	4.4	-2.2
Men	170.0	183.3	183.3	177.8	7.8	0.0	-3.3
Women	105.8	104.6	117.3	116.7	-1.1	12.1	-0.4
PART-TIME EMPLOYMENT							
Total	87.5	88.2	90.7	95.5	0.8	2.8	6.9
Men	30.2	32.4	27.4	34.5	7.3	-15.4	29.7
Women	57.3	55.8	63.3	61.1	-2.6	13.4	-2.4
TRADE SECTOR AS A WHOLE							
EMPLOYMENT							
Total	491.3	514.9	521.5	519.5	4.8	1.3	-0.3
Men	294.8	320.1	310.6	307.6	8.6	-3.0	-1.3
Women	196.2	194.9	211.0	211.7	-0.7	8.3	1.1
FULL-TIME EMPLOYMENT							
Total	394.5	418.7	422.5	416.4	6.1	0.9	-1.7
Men	261.8	284.4	279.3	269.5	8.6	-1.8	-4.2
Women	133.0	134.3	143.3	146.8	1.0	6.7	3.1
PART-TIME EMPLOYMENT							
Total	96.8	96.2	98.9	102.7	-0.6	2.8	5.4
Men	33.3	35.7	31.4	38.0	7.2	-12.0	24.6
Women	63.3	60.6	67.6	64.7	-4.3	11.6	-3.3

SOURCES: Statistics Canada, Cat. 71-001 and special compilation;
Direction de l'analyse économique et des relations internationales, MICT.

Wholesale and retail trade each lost roughly 6 000 full-time jobs among men. Due to its smaller size, the wholesale trade sector was affected to a greater degree by this loss; the decline was partly offset, however, by an increase in employment among women. During the first ten months of 1987, there was one full-time job held by a women for four similar jobs held by men. One year later, the ratio had changed to one full-time job held by a women to three similar jobs held by men.

(b) Wages

Although 1988 was not one of Québec's better years in terms of trade sector employment, it did see wages advance much more significantly than in 1987.

Overall, gains were nonetheless below those posted in the manufacturing sector. This was particularly true of average weekly earnings for all employees, including overtime, which rose 4.3 % in the wholesale trade sector and 4.0% in the retail sector, compared to 5.2% in the manufacturing sector. However, earnings of employees paid by the hour posted virtually identical growth rates in wholesale trade (5.3%), retail trade (5.1%) and manufacturing (5.1%).

(c) Labour Relations

In 1987, Québec experienced a wave of strikes and lock-outs in the trade sector, and the number of person-days lost in work disputes doubled. This phenomenon did not repeat itself in 1988, judging by the figures for the first three quarters. The year will be remembered as a calm one, in which the number of person-days lost was cut by 50%, returning to its 1986 level. The number of workers involved in labour disputes was only 15% of the number involved in 1985. The average length of disputes, however, has continued to grow, stretching from 11 to 49 days in four years.

The collective labour agreements of 22 400 workers in Québec's trade sector came up for renewal in 1988. Less than 10% of these workers had gone out on strike at last report. Strikes are relatively infrequent in wholesale trade, where 91% of the collective agreements were renegotiated without labour disputes between the parties. However, in retail trade, where weekly earnings have traditionally been over a third lower than those in the wholesale sector, negotiations for the renewal of collective agreements resulted in work stoppages in nearly one case out of five.

AVERAGE EARNINGS IN THE TRADE SECTOR
QUEBEC
1985-1988

	1985	1986	1987	1988 (9 months)	1986/1985	1987/1986	1988/1987 (9 months)
	(dollars)				(percentage change)		
AVERAGE WEEKLY EARNINGS (1)							
Wholesale trade	408.34	427.48	434.54	450.59	4.7	1.7	4.3
Retail trade	254.27	263.92	270.36	280.35	3.8	2.4	4.0
AVERAGE HOURLY EARNINGS (2)							
Wholesale trade	8.88	9.13	9.26	9.66	2.8	1.4	5.1
Retail trade	7.27	7.54	7.85	8.16	3.7	4.1	4.7

(1) For all employees, including overtime.
(2) For employees paid by the hour, including overtime.
N.B. For the years prior to 1987, the data for the various industries and for the totals have been corrected using Statistics Canada's adjustment factors.

SOURCES: Statistics Canada, Cat. 72-002; SIC, 1970; Direction de l'analyse économique et des relations internationales, MICT.

At least 407 collective agreements will expire in 1989. At 19 000, the number of workers involved is 16% less than in 1988.

UTILIZATION OF OTHER FACTORS OF PRODUCTION

Investment

Investment in Québec's trade sector continued to advance at a strong pace, although slightly slower than in 1987 and 1986. Capital spending moved ahead by 7.7% and was almost entirely concentrated on machinery. Outlays for construction and repair expenditures on machinery and structures remained virtually unchanged.

More than 80% of the capital spending increase came from expenditures by two groups of businesses: food store chains (a 91% leap in capital spending on construction and a 78% jump in capital spending on machinery) and service station chains (with respective increases of 39% and 24%).

LABOUR DISPUTES, TRADE SECTOR
QUEBEC
9 MONTHS, 1988

	Number of employees	Person-days lost	
		Number	% of estimated working days (1)
Wholesale trade	145 703	22 317	0.1
Retail trade	310 202	63 591	0.1
Trade sector as a whole	455 905	85 908	0.1

(1) The estimated number of working days for the first 9 months of 1988 is 189 days.

SOURCES: Statistics Canada, Cat. 72-002; Travail Québec, special compilations; SIC, 1970; Direction de l'analyse économique et des relations internationales, MICT.

PERSON-DAYS LOST IN WORK STOPPAGES
AND NUMBER OF WORKERS INVOLVED
TRADE SECTOR
QUEBEC
1985-1988

	1985	1986	1987	1988 (10 months)	1986/1985	1987/1986	1988/1987 (10 months)
	(number)				(percentage change)		
Wholesale trade							
Person-days lost	14 975	3 477	38 272	25 787	-76.8	1000.7	-15.1
Workers involved	993	305	661	628	-69.3	116.7	3.0
Days per worker	15.1	11.4	57.9	41.1			
Retail trade							
Person-days lost	161 031	120 604	209 135	69 891	-25.1	73.4	-61.2
Workers involved	15 101	3 985	5 160	1 455	-73.6	29.5	-69.6
Days per worker	10.7	30.3	40.5	48.0			
Trade sector as a whole							
Person-days lost	176 006	124 081	247 407	95 678	-29.5	99.4	-54.5
Workers involved	16 094	4 290	5 821	2 083	-73.3	35.7	-61.5
Days per worker	10.9	28.9	42.5	45.9			

SOURCES: Travail Québec,"Grèves et lock-out au Québec";
Direction de l'analyse économique et des relations internationales, MICT.

COMPETITIVENESS

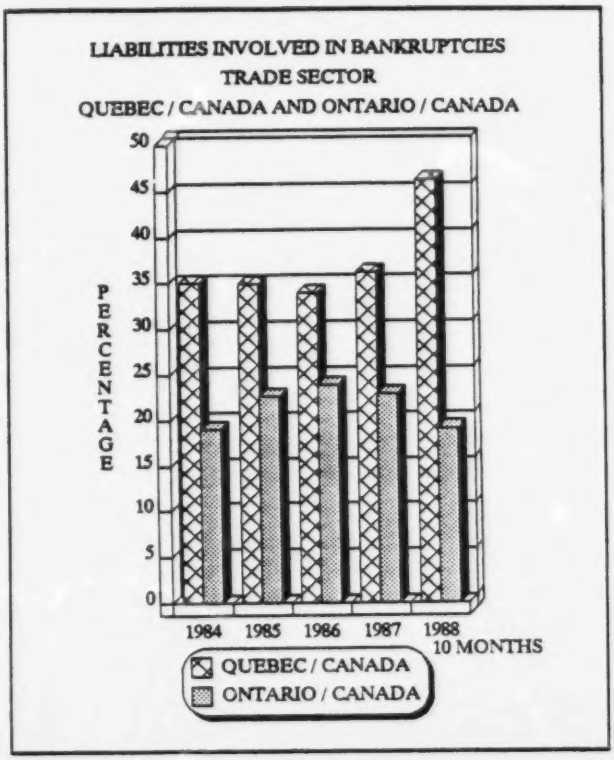
Profits and Bankruptcies

A satisfactory increase was posted in earnings in the wholesale trade sector, along with a more moderate rise in retail trade earnings. Higher interest rates, however, sparked a fresh outburst of bankruptcies.

Profits

Earnings in the Canadian trade sector rose a modest 5.5% in the first nine months of 1988 compared to the same period for 1987. The driving force behind this growth in earnings was the wholesale trade sector, which posted an increase of 10.0%.

Retail trade turned in a lacklustre performance, with earnings edging up 0.7%, which represents a decline in real terms. Lower profits for food stores were responsible for half of this poor showing.



CAPITAL SPENDING
TRADE AND COMMERCIAL SERVICES
QUEBEC
1985-1988

	1985	1986	1987*	1988**	1986/85	1987/86	1988/87
	(millions of dollars)				(percentage change)		
Trade - Total	415.4	465.3	506.3	545.1	12.0	8.8	7.7
Wholesale stores	160.4	178.0	203.8	207.6	11.0	14.5	1.9
Department stores	15.4	37.6	33.8	27.6	144.2	-10.1	-18.3
Service station chains	64.9	51.9	64.7	83.5	-20.0	24.7	29.1
Motor vehicle dealers	37.2	36.2	42.2	40.4	-2.7	16.6	-4.3
Combination food stores	26.4	16.1	16.1	29.6	-39.0	0.0	83.9
Other chain stores	45.2	64.3	71.6	71.8	42.3	11.4	0.3
Other independent stores	38.5	51.8	44.3	52.0	34.5	-14.5	17.4
Capital items charged to operating expenses	27.4	29.4	29.8	32.6	7.3	1.4	9.4
Commercial services - Total	1 519.6	1 909.2	2 155.7	2 394.0	25.6	12.9	11.1
Laundries and dry cleaners	4.3	6.6	3.0	2.6	53.5	-54.5	-13.3
Motion picture theatres	6.4	9.3	7.1	7.5	45.3	-23.7	5.6
Hotels	103.5	100.7	124.2	173.7	-2.7	23.3	39.9
Other commercial services	1 405.4	1 792.6	2 021.4	2 210.2	27.6	12.8	9.3
TOTAL, Trade and commercial services	1 935.0	2 374.5	2 662.0	2 939.1	22.7	12.1	10.4

* Preliminary. ** Estimates revised at mid-year.

SOURCES: Statistics Canada; Direction de l'analyse économique et des relations internationales, MICT.

Bankruptcies

The trend in bankruptcies in Québec's trade sector follows the apparent trend indicated by figures on personal bankruptcies and on bankruptcies in the manufacturing sector. Higher interest rates drove up the number of bankruptcies in the trade sector. This increase, a reversal of the steady trend since 1982, was nonetheless moderate. Further rises in interest rates, however, would undoubtedly strengthen this movement.

The upward trend in bankruptcies began to emerge in 1987 in the retail trade sector. In 1988, the number of bankruptcies in this sector was up 18% and liabilities involved soared 58%. The wholesale trade sector followed suit, with bankruptcies climbing 14% and total liabilities involved growing 27%. From 1987 to 1988, Québec's share of total liabilities involved in bankruptcies in the Canadian trade sector rose from 36% to 46%.

BUSINESS BANKRUPTCIES IN THE TRADE SECTOR
QUEBEC, ONTARIO, CANADA
1985-1988

	1985	1986	1987	1988 (10 months)	1986/1985	1987/1986	1988/1987 (10 months)
NUMBER					(percentage change)		
· Québec	1 021	1 000	1 024	970	-2.1	2.4	17.4
· Wholesale	133	167	136	119	25.6	-18.6	14.4
· Retail	888	833	888	851	-6.2	6.6	17.9
· Ontario	578	550	526	418	-4.8	-4.4	-4.1
· Canada	2 430	2 418	2 319	2 019	-0.5	-4.1	5.9
· Qué./Can. (%)	42.0	41.4	44.2	48.0			
· Ont./Can. (%)	23.8	22.7	22.7	20.7			
LIABILITIES ($'000)							
· Québec	129 040	125 658	150 238	162 524	-2.6	19.6	49.7
· Wholesale	42 687	42 005	49 048	36 346	-1.6	16.8	27.0
· Retail	86 354	83 653	101 190	126 178	-3.1	21.0	57.8
· Ontario	83 681	88 455	94 740	67 204	5.7	7.1	-21.1
· Canada	369 623	370 399	414 743	351 263	0.2	12.0	4.2
· Qué./Can. (%)	34.9	33.9	36.2	46.3			
· Ont./Can. (%)	22.6	23.9	22.8	19.1			

SOURCES: Consumer and Corporate Affairs Canada, Office of the Superintendent of Bankruptcy, "Insolvency Bulletin"; Direction de l'analyse économique et des relations internationales, MICT.

THE MANUFACTURING AND TRADE SECTORS IN QUÉBEC IN 1988

OUTLOOK FOR 1989

OECD

According to OECD forecasts, the real GDP of its member nations should grow by 2.5% in 1989, primarily due to the investment boom in nearly every part of the industrialized world. Growth should significantly outstrip this average in Japan, but be lower in Europe.

A slowdown in the growth of employment is anticipated, particularly in Europe. The rate of growth in the labour force should decline somewhat, and unemployment may continue to recede in the United States and Canada but start to edge up again in Europe. For the OECD area as a whole, increases in real wages will stabilize at roughly 1%, although they will be decidedly greater in Japan and the United Kingdom and particularly low in France. Labour productivity gains could be slightly below the current trend of 1.5%.

Inflation will level off in Europe but gain momentum in the United States and Japan, with the average rate settling at roughly 3.75%. Sounder organization of public finances, particulary through tax reform, will remain a major goal for many countries. Interest rates are expected to inch up throughout most of 1989.

United States

The strong performance of the U.S. economy in late 1988 will continue through the first quarter of 1989. U.S. products will retain their competitive edge in world markets. Production capacity utilization will continue to rise along with sales of manufactured products. Business investment will again be the most dynamic component of domestic demand. Consumer spending and residential construction will remain relatively weak, while government spending will be held in check by efforts to control the federal deficit.

The unemployment rate should hold in the region of 5.5%, where it stood in late 1988. Wages will begin to reflect the tighter labour market situation. Higher wages will slow the growth in business earnings, which should nevertheless maintain their high 1988 level.

In 1989, as capacity constraints become increasingly obvious in the manufacturing sector, labour costs threaten to go up and imports become more expensive due to the weakening dollar, the U.S. economy will experience higher inflation, higher short-term interest rates, a slowdown in the bond market, and upward pressures on unit labour costs. According to Conference Board experts, growth will become negative in late 1989. The GDP growth rate for the entire year should still equal half that posted in 1988.

In view of the overall strength of the U.S. economy in late 1988, the United States should record in 1989 its seventh consecutive year of economic growth, although the possibility of a recession in 1990 cannot be excluded.

Canada

Like its U.S. counterpart, the Canadian economy is heading into its seventh year of growth. Canada's GDP is expected to increase by 2.3% in 1989, lagging slightly behind the 1988 rate.

OUTLOOK FOR 1989: OECD FORECASTS

Country	Real GDP or GNP	Employment	Inflation (1)	Unemployment rate
	(% change)	(% change)	(%)	(%)
Canada (2)	3.25	3.0	4.25	6.75
United States	2.5	1.5	4.25	5.5
Japan	3.75	0.75	1.75	2.75
West Germany	1.75	0.25	1.5	8.0
France (2)	1.75	0.0	2.75	11.25
United Kingdom (2)	2.25	0.0	3.25	9.75
Italy (2)	2.25	0.25	4.25	12.0
OECD - Total	2.5	1.0	3.75	7.5

(1) Private consumption deflators. (2) GDP.

SOURCES: OECD, "Perspectives économiques de l'OCDE", June 1988; MICT.

Business investment will continue at a brisk pace, despite the expected slide of 5.4% in capital spending by Canadian affiliates of U.S. manufacturing companies. Residential construction will be sharply curtailed. Although housing starts are expected to drop by roughly 177 000 units, building and renovation products suppliers should enjoy a prosperous year.

Consumer spending will grow somewhat less rapidly, but be buoyed by the revenues generated by new jobs and reduced income taxes under phase one of the federal tax reform. Quebecers should receive refunds of federal tax overpayments made during an entire year, not just the last six months of 1988 as will residents of other provinces.

Government spending will continue to grow at a modest pace.

Since the Canadian economy will grow slightly faster than its U.S. counterpart, growth in imports will outstrip that of exports for the third consecutive year. The current account balance is expected to continue posting a $10-billion deficit, and the Canadian dollar, after initial gains, will falter during the second half of 1989 and return to an average for the year slightly above the 1988 level, reflecting the optimism arising from the Free Trade Agreement and the effects of takeover measures.

The unemployment rate will rise marginally to hit 8%, the first increase since the 1982 recession. In Ontario, an especially tight labour market will generate wage increases above the inflation rate.

The consumer price index is expected to climb by 5%. The Bank of Canada, keeping close watch on the index for fear of an inflationary upsurge, may raise interest rates slowly and then pull them down somewhat once it observes the desired slowing of the economy in late 1989.

Economic growth will be positive in all provinces, but will lose momentum in six and pick up speed in three.

East of Québec, **Newfoundland** will see its metal mines sector expand rapidly but its construction sector slump. Growth in **Prince Edward Island** will slacken despite progress in fisheries, tourism and construction. The economies of **Nova Scotia** and, to a lesser extent, **New Brunswick**, will grow at a slightly faster rate than in 1988, the former through gains in its forest products processing, fisheries and food sectors, and the latter because of advances in its pulp and paper, boat building and metal mines sectors, which will more than offset waning lumber production.

West of Québec, a slowdown in the residential construction and automobile sectors will cut **Ontario**'s growth to 2.4% in 1989. **Manitoba** and **Saskatchewan** will surmount the effects of the drought by intensive work on the Limestone hydroelectric project and a strong recovery in agricultural production. Reduced oil and gas investments will slow **Alberta**'s growth considerably. Falling lumber production will have a greater impact on **British Columbia**'s economy than will its improved mining production.

ECONOMIC FORECASTS FOR 1989
QUEBEC

	Confédération Desjardins Dec. 1988	Conference Board Oct. 1988	Caisse de dépôt Dec. 1988
REAL GDP (% change)	2.6	2.2	2.7
EMPLOYMENT (% change)	1.7	2.3	1.1
UNEMPLOYMENT RATE (%)	9.6	9.1	9.5
MONTREAL CPI* (% change)	4.6	5.1	3.7

* Consumer price index.

Québec

Like the United States and Canada, Québec will experience its seventh consecutive year of economic growth in 1989. According to forecasts published by several agencies, Québec's real GDP will advance at a rate of 2.2% to 2.7%, failing to match its 1988 performance. This result is similar to that expected for the U.S. economy and compares favourably with the growth forecast for the four major European countries. Growth in manufacturers' shipments will slow significantly, to 4%.

This slower growth in Québec, slightly below the Canadian average, will be due mainly to the sharp plunge in construction activity and related industries. As latent demand is met, interest rates climb and vacancy rates across the province rise, higher prices for houses will lead to a readjustment of residential construction activity to conform to current demographic trends. Housing starts will once again drop in 1989, to 45 000 units, setting back residential construction spending by 13%.

Goods-producing industries will grow by only 1.5%, while the service sector will see its growth slip to 2.7%. The main contribution to growth in the Québec economy will come from business investment, and non-residential construction, up by more than 11%, will in 1989 remain the principal source of the increase in demand. The James Bay hydroelectric project alone will boost investment by $2.2 billion in 1989 and over $3 billion in 1990.

Québec exports to the United States will experience only modest growth due to the dampening effect of the stronger Canadian dollar and the expected economic slowdown in the U.S. The stimulating effect of the Free Trade Agreement will not yet be strong enough to counteract this trend. The recent upsurge in the value of the Canadian dollar has reduced Québec manufacturers' competitiveness.

Increasingly onerous interest charges will exacerbate the household debt burden and, in order to improve their financial position, Québec consumers will rein in spending. Reduced consumer spending will hit new automobile sales hardest. Retail sales will increase by 6.9%.

Total employment will continue to grow, with an expected 1.1% to 2.3% hike. The unemployment rate will inch up and could vary from 9.1% to 9.6%.

Most forecasts call for inflationary pressures to build in Québec and throughout North America. Prices will be up between 3.7% and 5.1%, keeping inflation in Québec equal to the Canadian average.